S. HRG. 98-704

REPORT OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

HEARING

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

THE EFFECT OF THE REPORT OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL ON TITLES V AND X OF S. 1739, THE WATER RESOURCES DEVELOPMENT ACT OF 1983

FEBRUARY 22, 1984

Printed for the use of the Committee on Environment and Public Works

U.S. GOVERNMENT PRINTING OFFICE

32-804 O WASHINGTON : 1984

S321-20

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REPORT OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

WEDNESDAY, FEBRUARY 22, 1984

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
Washington, D.C.

The committee met, pursuant to notice, at 10:12 a.m., in room 406, Dirksen Senate Office Building, Senator Robert T. Stafford (chairman of the committee) presiding.

Present: Senators Stafford, Chafee, Simpson, and Evans.

OPENING STATEMENT OF HON. ROBERT T. STAFFORD, U.S. SENATOR FROM THE STATE OF VERMONT

Senator STAFFORD. Good morning. The Committee on Environment and Public Works will please come to order.

Before I proceed further, I want to welcome to the committee Senator Dan Evans of Washington, who I am delighted has become a member of this committee, and although he isn't able to be with us this morning, Senator Frank Lautenberg of New Jersey also has joined the committee. I extend a most cordial welcome on behalf of the committee to both of the new members.

Senator EVANS. Thank you.

Senator STAFFORD. Further, on behalf of the committee it is an honor to welcome you here, Mr. Grace. As chairman and chief executive officer of W. R. Grace & Co., Mr. Grace was asked by President Reagan to serve as Chairman of the President's Private Sector Survey on Cost Control. It is in that latter capacity that we have asked Mr. Grace to testify today.

This committee reported S. 1739 to the Senate at the conclusion of the first session of this Congress. That bill, the Water Resources Development Act of 1983, contained two titles with provisions affected by the recommendations of the Grace Commission. These are title V involving potential inland waterways cost sharing, and title X concerning the costs of deep-draft navigation work.

The Survey's User Charges Task Force recommended that over the next 3 years charges be phased in that would recover a total of $1.3 billion, levels of cost recovery far beyond those in our bill. Because of the importance of this legislation and its relation to the work of the Grace Commission, we are delighted to have you join us, Mr. Grace.

Before asking Mr. Grace to make his opening statement, I would express my understanding that my colleagues on the committee may be tempted to wander into discussions of other issues in the

Grace report. I urge them not to do so. I hope that each of us will limit our questions specifically to the issue of user charges as they relate to the Federal Government's navigational problem.

Now, Mr. Grace, I see that you have a long and full statement. It would be my intent, if there is no objection, to place your entire statement in the record together with any charts and other information attached thereto, and ask you to summarize it or read parts of it in whatever way you may wish to proceed.

Mr. GRACE. How many minutes would you like me to spend?

Senator STAFFORD. Would 20 minutes be adequate?

Mr. GRACE. Fine. Fine, Senator.

STATEMENT OF J. PETER GRACE, CHAIRMAN, PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, ACCOMPANIED BY J. P. BOLDUC, CHIEF OPERATING OFFICER, AND JIM CLAWSON, PROJECT MANAGER, USER CHARGES

Mr. GRACE. We are pleased to accept your invitation—I am going to go fast, now—we are pleased to accept your invitation, Mr. Chairman. We are going to identify some of the major recommendations of our User Charges Task Force as well as other task force recommendations.

I am Peter Grace. I was chairman. J. P. Bolduc is with me. He was the chief operating officer and Jim Clawson was the project manager for the User Charges Task Force.

Of particular interest to the committee would be the full cost recovery for the sale of Government-generated electric power, $4.5 billion savings over 3 years; full cost recovery for the construction, operation, and maintenance of deep-draft ports and channels and inland waterways, $1.3 billion over 3 years; full cost recovery for Coast Guard services provided in nonlife-threatening situations, savings, $418 million over 3 years. These and other recommendations are related to the broad category of user charges and will be further discussed.

We have here in the beginning, which I won't go over thoroughly, the history of the formation of the President's private sector survey on cost control. The fact that we had 2,000 volunteers, spent $75 million and raised $3.4 million in cash. We had 47 task force and management office reports, 20,000 pages of material, and 2,478 recommendations with 1.5 million pages of backup material. Page 5 summarizes the program waste, system failures, personnel mismanagement, structural deficiencies, and other opportunities totaling 2,478 recommendations, $424.4 billion in total over 3 years. We have forecasted the deficits in this country, with the 962 social programs that are mainly formularized, and taking defense at about 7 percent of GNP compared to 15 percent for Soviet Russia for defense, we estimated the deficit at $2 trillion in the year 2000 and about $600 to $900 billion in about 7 or 8 years. The debt in the year 2000 will be $13 trillion and the annual interest cost will be $1.5 trillion, which accounts for the very large deficit of $2 trillion. Now, Mr. Chairman, if you and I were having an argument about $1 in the budget and I wanted to leave it in and you wanted to take it out, this would amount to cumulatively $32 in 12 years—that takes you to 1995—and $71 cumulatively in 17 years, so since we

have about $128 billion in annual savings—call it $100 billion—what we are talking about in the total PPSS situation is $3.2 trillion over 12 years and $7.1 trillion over 17 years.

Now looking at the interaction of other matters, including interest rates, et cetera, the total cumulative savings of the PPSSCC is $10.53 trillion, and it amounts to $130,000 for every one of the 82 million taxpayers in the United States. As you know, the underground economy is $500 billion with $100 billion in lost tax revenue. As you know, the median income American family paid $9 in taxes in 1948 and $2,218 in 1983, which is 246 times while their income was up 7.6 times. Therefore, you need a 72.8 percent further increase in personal incomes if you were to balance the budget.

We hear a lot from our friends in Congress about taxing the rich. We took a study of the total income flow, the personal taxable income flow coming through the system, and we found that 75 percent is found at $20,000 and 90.4 percent is found at $35,000, and if you took every nickle of everybody's taxable income over $75,000, you could run the Government for 10 days, and that would be as long as the people who were earning that kept working and earning it, which of course they wouldn't. Therefore, it appears that there is not much opportunity to raise a lot of money through increased taxes because you would have to increase them 73 percent—the increase in personal income tax—just to balance the budget.

As I mentioned, we have $10.5 trillion in savings out to the year 2000 and a lot of people have criticized us. When we started working on this job in June 1982, the rate of inflation was 13.8 percent—we all have very short memories—and the interest rate was running at 14.75 percent, so to be conservative we took 10-percent inflation and interest rate. Now we have $424.4 billion on the basis of 10 and 10. The average interest rate of the U.S. Government this year, the last month I looked, is 10.75 percent, which is three-quarters of a percentage point above the 10 percent that we took. If you adjust inflation down from 10 percent to 5 percent our savings come out at $404.2 billion over 3 years, which is a reduction of 5 percent, so our use of 10 percent for inflation and interest is not a major issue.

We looked at these businesses as if they were failing businesses. We have, on pages 15, 16, 17, and 18, the different things that the Government does that business does. We recognized when we came to Washington that most people down here thought, "Why bring businessmen here? They don't know anything about Government." We admit we don't, but we do lend money and the Federal Government lends money. They lend $764.6 billion, almost three-quarters of a trillion; the private sector lends 1½ trillion.

HUD, for instance, makes three attempts to collect loans, and in the private sector it's 24 to 36 times; that's why the delinquency rate on current Federal receivables of 41 percent is so much higher than it is in the private sector. Furthermore, as we look to the student loans, $2.3 billion overdue, not paid by orthopedic surgeons, psychiatrists, lawyers, people who have plenty of money, we found that 44,000 Government employees and former Government employees are not paying on their student loans, and we thought that

that seemed silly because no major corporation would be paying full salary compensation to people who owed them money for years and years.

Timberland, the Government has 105 million acres, the private sector 347 million. They give away 24.5 percent of their harvested timber. Grazing land, the Government only recovers 36.6 percent of its costs on 163 million acres versus 587 million acres in the private sector. It costs $191,300 per bed for hospitals, VA in the Bronx. Duke University in North Carolina pays $97,400, and there are 177,000 beds in the Government, almost 1.5 million in the private sector. Regarding nursing homes it costs about 4 times as much to construct a VA nursing home bed, $61,250 against $16,000 for a major private sector nursing home.

ADP, the computers, half of them are so old the manufacturers don't even service them, cost $600 million a year in personnel expenses to keep the repair staff on. The Government has 250,000 ADP employees and 17,500 computers. They're not interfaced. They don't give necessary information. When we brought up the student loan issue, Cap Weinberger wrote Secretary Bell and said, "Give me a list of the student loans owed by Defense Department employees," but that data ought to all be on computers. It shouldn't be necessary to have personal conversations between Cabinet officers on things like that.

Inventory management, there's $41 billion in Government, and in the private sector there's $806 billion, and we could save the Government $4.5 billion over 3 years using the replenishment techniques used in the private sector.

Borrowing money, the Government borrowed 33 percent of the $409 billion raised in the U.S. credit market in 1982—$135 billion. Federal R&D funding is over $40 billion now. The R&D bureaucracy is such, with 750 labs, you have to go through 114 Department of Energy offices for funding approval.

Transportation of persons, payroll—it costs the Army $4.20 to process a payroll check. It costs $1.00 in the private sector. The Government doesn't audit freight charges before payment even though freight costs are $5 billion a year. They don't negotiate volume discounts. They don't have coordinated travel—transportation of people—procedures. They didn't have travelers checks until we suggested it to save cash. Building maintenance, they've got 2.6 billion square feet. That's more than the space in the 10 largest cities times four on office space, and the Government uses 17 times as many people and 14 times as much on total management costs per square foot as a private sector firm. Pension benefits, civil service benefits are three times those in the private sector. The rate of return on the pension balances in 1980 was 7.4 percent against 14 percent in most private sector plans. The vehicles, nonmilitary, the Government has almost a half a million. They only use them 9,000 miles—rental companies go 25,000—and they don't get them up to bluebook values by having proper reconditioning before they sell them. In procurement $159 billion; the private sector does $2 trillion. There is a lack of competition or control on Federal contracts. That's why the Pentagon spent $91 for a 3-cent screw. Foreign exchange, there's $10 billion a year that the Government operates on. The comparable private sector number is $181 billion. If they had

hedged the way private companies do, they would save the Government $438 million over 3 years. Now there's plenty of cost-saving opportunities here. On the user charges side, page 20, we have savings areas categorized by implementation authority, agency and executive, congressional, and total. One area is sales, $5.09 billion; transportation, $3.3 billion; special services, $1.01 billion; recreation, half a billion; regulationing and licensing, a fifth of a billion; $36.8 million, inspection and grading. The total comes out, including other issues in other task force reports, to user charges of $20.965 billion over 3 years.

Of the $10.2 billion in issues developed by the task force on user charges, 96 percent would require congressional action and $402 million could be done by under executive authority. The Federal Government performs more than 1,500 commercial activities which generated 1981 revenues of about $40 billion. The pricing of these products, however, frequently did not recover the Government's cost.

The task force confirmed the findings, GAO and CBO, that user charges policies and procedures are inconsistently applied in executive branch programs. Court decisions have created some confusion and misunderstanding about user charge authority, and even in those situations where there should be no question as to the applications of guidelines and principles, systems employed do not provide adequate program direction and guidance.

We found that the management information systems, the accounting systems—what are there, 332 incompatible accounting systems that can't be regulated in the Government?—program evaluation and accountability, are generally ineffective. Because of the 332 incompatible accounting systems, you can't get the work overhead; you can't get the load, the overhead load on any of these charges, so the system is loaded with lack of information which we have termed the "information gap."

We have identified increased user charge revenue generation opportunities which can be accomplished by clarifying user charge policies and procedures, improving management and accountability, and congressional action to remove existing prohibitions or grant expanded authority. The taxpayers are currently absorbing many of the costs of providing goods and services to selected, discreet beneficiaries, and although I have no political ability at all, I would love to see some of these things put out for a vote across the whole country.

If you ran it out like that I don't think that the taxpayers, if they knew of the discreet audience, discreet recipients—for instance, yacht owners who use the Coast Guard to have their boats towed in in nonlife-threatening situations off Cape Cod in the summer, or the maps that the Department of Commerce puts out for nothing and are sold by gift shops in Massachusetts for $5, $10, $15—the Government is giving it away, and this goes to rich people, so there's a lot of free benefits that if it were made known I think taxpayers would not support.

Now we have all these pages with the specific details of the recommendations, and if you look at page 35 you have here a concept advocated by Senator Simpson that at least some effort should be made to reduce the costs that Government absorbs each year. His

amendment would reduce the cap on inland waterway expenditures from $646 million by $35 million per year. Now that would take 18.5 years to eliminate this subsidy to a small, discreet group of taxpayers, so by reducing the cap at $35 million a year it's really taking 18.5 years to get rid of this subsidy.

As it relates to provisions of the bill dealing with port and harbor construction, operation and maintenance, the same remarks would apply. The goal to be obtained in recovering costs for these services provided to identifiable beneficiaries should be 100 percent. If a local community wishes a 50-foot-deep port to accommodate special ocean traffic, it would seem to us that the requesting community should pay for this cost.

This is a vitally needed discipline, since anyone will need and take something if it is for free. You know, over and over again you see when they gave these publications out for years and years costing hundreds of millions of dollars, when they ask for a small subscription fee, 50 percent of the people who were receiving the publications wouldn't continue to do so if they had to pay for it.

I mentioned the 332 different and incompatible accounting systems, each with its own guidelines, standards, and requirements. The cash flow is $1.7 trillion in and out a year in the Government, and if you could save say 6 days of that at $6.8 billion every working day, that's $41 billion of cash acceleration. Therefore, if you had proper accounting, proper office automation, you could easily accumulate $41 billion and reduce the debt by that amount.

The 17,500 computers I have covered, which is very important when it comes to knowing the cost of the user charges. Now we don't understand why the taxpayer would have to pick up 70 percent of the tab for harbor construction, 50 percent of the cost for the design and engineering portions of harbor construction, and at least 100 percent of operations and maintenance costs for harbors up to 45 feet in depth and only 50 percent of the cost for maintenance of depth below 45 feet.

This proposed bill reflects considerable negotiation and compromise, and while S. 1739 may constitute the only changes that are termed to be "politically pragmatic" at this time, it would be a major step forward if enacted. We would be remiss if we were not to urge this committee and the Members of Congress to continue to work toward a program of full cost recovery from those who benefit from the services or products provided by the Federal Government.

American taxpayers in general should not have to shoulder the cost of privileged services, and that is particularly true, Mr. Chairman, when you look at the $10.53 trillion savings that we have accumulated over 17 years. Without PPSS, the difference is $10.53 trillion. When you look at the $13 trillion debt that we are going to have in 17 years, the annual interest of $1.5 trillion and the deficit of $2 trillion in only 17 years. Now under transportation, user charges to improve the interstate and defense highway system through regular adjustments in highway user charges could recover $2 billion, et cetera.

I know that we are limited on time here, so we would like to mention a system that the White House has put in to review and implement our procedures. They are going over them very carefully. We are invited to all the meetings to discuss with the OMB and

with the departments and agencies what their reactions are to what we have recommended. Cabinet members and agency heads, as well as our representatives, have been participating in these review group meetings.

They have already adopted and accepted a series of cash management improvement recommendations with estimated savings of $4.7 billion by fiscal year 1985. An aggressive Government-wide debt collection program which had been underway for nearly 2 years was reinforced by our recommendations: Savings targets for fiscal 1983 through 1988 are $20 billion in collections. The administration has initiated action to reduce the number of employees in grades GS/GM 11 to 15 by 40,000, as we recommended: savings, $1.4 billion through 1988. A reduction of 1,400 employees in the Department of Health and Human Services, as recommended by PPSS, is being made with $172 million savings over 3 years.

I and my associates are ready to provide whatever assistance we can to the executive and legislative branches to further the understanding, acceptance, and implementation of PPSS recommendations. We thank you, Mr. Chairman, and your associates for the privilege of appearing before you this morning.

Senator STAFFORD. Well, thank you very much, Mr. Grace. You certainly got through that very speedily, an enormous amount of information.

Thinking back, on a personal note, to the late fall of 1959, I happened to be in Rio de Janiero when one of your 21-day liners arrived there, I think on her maiden voyage or at least a very early one, when they were hailed as fast enough to make it to Buenos Aires from New York in 21 days. Am I accurate about that?

Mr. GRACE. You are, Mr. Chairman, and you have a wonderful memory. It's beautiful, city and it's very exciting and romantic to see new ships come into Rio harbor, but the stockholders weren't making anything on it so we had to sell it.

Senator STAFFORD. I think your ships came out just about the time the 707 suddenly made it possible to get to Buenos Aires in 1 day.

Mr. GRACE. Right. Well, to get down to Buenos Aires, Pan Am is flying nonstop 11 hours now, which is unbelievable. In a DC-4 it took 26 hours. The whole thing just changed overnight.

Senator STAFFORD. Well, thank you, sir. I have a few questions. Maybe I can suggest to my colleagues who are here that in the first round at least we limit ourselves to about 10 minutes. Is that agreeable? I see no dissent.

It seems to this Senator, Mr. Grace, that the administration has been giving lipservice to the views of the Commission which you have chaired on the question of user charges, but that nothing has really been done by the administration to push these views. Do you have any reaction to that?

Mr. GRACE. Yes. As you know, I have other work that I am paid to do, and Mr. Bolduc here has been the liaison with the White House on all of this and he attends the meetings, so what is your comment on that?

Mr. BOLDUC. I suppose I should say that I am being paid because I have nothing else to do. But the White House has put together a structure in which at the time they receive a document—and they

have now received 47 such documents—they prepare a computer printout based upon our data base. These are delivered to the Cabinet officer responsible to take corrective measures. They are then given 15 days to respond to each of the PPSS recommendations in terms of agreement, disagreement, or need for further review.

A meeting is then held at the White House, as Peter indicated, which is attended by representatives from the Office of Management and Budget—either at the Director or Deputy Director, and certainly at the Associate Director level—representatives of the Office of Policy Development within the White House, the deputy Cabinet officer, the Assistant Secretaries and staffs from the responsible agency, and representatives from the President's Private Sector Survey.

At this point, they have now reviewed a total of 15 individual reports and have agreed to implement 85 percent of the recommendations that have been contained in these reports. Some of those items that Peter mentioned towards the end of his prepared remarks included specific actions that have been implemented—the $4.7 billion in interest savings resulting from cash management improvements, the 40,000 GS–11 through GS–15 employees whose positions will be abolished over the course of the next 4 years and so forth.

There are others that have not been included in our testimony, such as the issuance of credit cards in lieu of travel advances, which would save $31 million a year; the discontinuation of printing plants and reproduction services or the reduction of those services in 229 plants at a savings of $53 million; and there are several other recommendations that have been implemented. So, quite to the contrary, there is a very aggressive program that is going on and we are quite encouraged by the action that is being taken.

Senator STAFFORD. Thank you very much.

Getting again to user charges, many users complain that cost recovery is unfair because they will end up paying the cost of decisions made by Congress to build what they might describe as vanity projects. Do you have any comment on that?

Mr. BOLDUC. Well, that certainly is a concern. It is not only a concern with respect to bills that may be passed by the Congress that require user charges but I think it spans the entire area, for example, of the 962 subsidized programs that cost us $40? billion a year. I think one of the major inadequacies with moving forward in Government today with an effective user charges program is that the basic structure, the basic system is simply not in place today to enable the effective accounting, charging and recovery of those dollars in an efficient and effective way. Even if you passed certain laws with respect to user charges, there is nobody in Government today accountable for a user charge program. There are 332 different/incompatible accounting systems. There is no chief financial officer in Government today. Therefore the American taxpayer ought not only be concerned about the nature of the programs but the reasonableness of the charges that they may have to pay.

Mr. GRACE. Also, I might say, Mr. Chairman, that if you look at the cost allocations—you take the civil service payroll, the total payroll of about $61.2 billion as I remember it—there is no reserve

for past service liability in the pension system. You would have to add—what is it, 85 percent you would have to add?

Mr. BOLDUC. Eighty-five.

Mr. Grace. Eighty-five percent you would have to add to the payroll if you costed it the way corporations do, which we have to look at our payrolls on the basis of fringes and the pension costs, so we cost our cost of production on a full-cost basis. The Government is not doing that, and if you had to add 85 percent to a $61 billion payroll, that's another $52 billion a year that's not costed.

So, I mean, I'm not sure that is a criticism of the users—you know, we developed in this country, and I was asked at the Senate hearing this morning in the Agriculture Committee—you know, what can be done about the fact that many people who borrowed the $767 billion that the Government is owed by third parties feel that a lot of that is a grant or that you don't really have to pay it back? It's true, that is the feeling, and it's the same thing with user charges. People in this country, due to the fact—if you look at the competition right now for the Democratic nomination, this is not a partisan remark but, I mean, each person is promising more—and as long as the leaders in this country—and we have in Washington, that's where our leadership is—as long as it's going to be a game as to who can outpromise everybody else, saying that the rich are going to pay for it and that they are not being taxed properly, when you can only run the Government for 10 days if you took every bit of income of over $75,000, and nobody tells the people that 90 percent of the taxable income is below $35,000 and that median income family taxes are 246 times what they were 35 years ago, if nobody is telling them that and we are heading for a deficit of $2 trillion a year, sure, they are going to say the user charges are too high. "Why should I pay my student loan?" "Why should I pay off my HUD?" Et cetera, et cetera. This is a philosophy. It's a culture, and it's a very serious problem and I don't know how to solve it but you're absolutely right, that is the attitude.

Senator Stafford. Let me ask this question: S. 1739 establishes a users board to set levels for spending and cost recovery on inland waterways. Do you believe such a board would and could prove to be workable?

Mr. GRACE. Did you look at that? Do you want to answer that, Jim?

Mr. CLAWSON. Yes, I can answer the question. It was not proposed at the time we did our study but I do think it would be workable. In fact, one of the problems that we ran into during our study was the concern of the users as to what involvement they are going to have in this whole process. I mean, if the users are removed from any decisionmaking role and they just have to pay for the service, there is a great reluctance for them to pay. I think any mechanism that can somehow get them closer to the decisionmaking process where they can see that what they are paying for is something that they need, would be beneficial. Whether this particular board is the most efficient way to provide that role or not, we didn't look at, and I can't really say, but it sounds like it could be a workable system.

Senator STAFFORD. Thanks. My last question, for the time being at least, is this: S. 1739, again, requires 100 percent non-Federal fi-

nancing of any of the proposed 55 foot superports for coal or, I suppose, oil exports or imports. Do you think that those costs, possibly $500 million per port, can be absorbed by the non-Federal sector?

Mr. GRACE. Yes; definitely. Of course, there was a lot of optimism on coal exports, as you know, Mr. Chairman, during the last 5 years——

Senator STAFFORD. Yes.

Mr. GRACE [continuing]. And of course it hasn't materialized because of the reduction in numbers of Btu's consumed all over the world since these higher energy prices, but certainly the way the economics were going 5 years ago, when you look at the ports in Norfolk and Baltimore, et cetera, you had big profit potential with the export of coal when they expected to go to 100 million tons and it is now only running at about 70 million, but if you get this energy thing going again, yes.

Senator STAFFORD. You all answered that so speedily, I'll ask one more and be in 10 minutes.

American agriculture seems to be in real trouble. Won't user charges and various other Grace Commission recommendations with respect to them severely damage the American farm economy? How can that be prevented?

Mr. GRACE. Well, I don't know any particulars. I'm a farmer myself, Mr. Chairman. I formerly farmed in Vermont, in your State, and then I moved down to South Carolina because I could only grow potatoes up in Vermont, but I don't think that the user changes, are damaging.

Senator STAFFORD. Well, we would like to have you come back, Mr. Grace, and try a maple sirup orchard.

Mr. GRACE. Yes. Well, I also had maple sirup, and I lived next to the people who had a huge one and I sold my sirup to them. They made candy in Wilmington. I guess you know the family.

Senator STAFFORD. Yes, sure.

Mr. GRACE. But, anyway, it wasn't enough to keep my family going. But I don't think there's anything in the——

Mr. BOLDUC. Mr. Chairman, I would be interested specifically in the kinds of user charges you're talking about with respect to the agricultural community. There are some that come to mind with respect to application fees in connection with Farmers 'Home applications for farm ownership loans and farm improvement loans. We have proposed charging fees for soil tests and surveys that are conducted. We have proposed charging for firewood that is currently being taken out of the national forests free—at a rate of $235 million a year. But, I am not aware of any user charges within the agricultural community that would have a significant impact on its operations.

Mr. GRACE. Neither am I, as a farmer.

Senator STAFFORD. Thank you very much. The Chair notes he has consumed exactly 10 minutes, and that the next member of the committee to arrive is our new member, Senator Evans. Dan, you're on.

Senator EVANS. Thank you, Mr. Chairman. It's a pleasure to have Mr. Grace in front of us. As a new member and perhaps with somewhat less responsibility initially than some of the others, I have had perhaps more time to start to wade through the recom-

mendations and particularly the summaries, which in themselves are pretty formidable documents.

An initial comment, before a couple of questions. I had the privilege, in 1965, of initiating a similar study in the State of Washington, which I believe was probably the predecessor to Governor Reagan initiating a similar study in 1966. At least he was in contact with my office and we had a number of conversations on doing the same sort of study, and in fact used the same people to help do the study.

I found one difficulty in the carrying out of the recommendations, however, and I perceive that the same thing may be true here. I don't know whether it's too late to change any of it or not. We had the same enthusiasm from the businessmen's panel. We had hundreds of recommendations, and those recommendations were totaled and a target then was established, a total amount of money which could potentially be saved.

The unfortunate thing, I think, is that the total amount was for a lot of reasons unattainable, as I am sure this will be unattainable in its $420-some-billion total, but that doesn't mean that partial attainment is a failure. It may well be a significant success. It seems to me we've got to set some measurements that are reasonably attainable as a first step which makes enthusiasts out of skeptics. That was one of the problems we ran into, and I suspect that the Federal establishment may run into, saying it's hopeless or we don't even believe it's appropriate in all respects to do some of these things. We can't attain it, so it becomes more difficult to start.

Mr. GRACE. Well, we noticed, if I might just say, after issuing, Senator, over 20,000 pages, that people like George Will, the Pulitzer Prize winning journalist, and others within 48 hours were able to say that the whole thing was crazy. I mean, you're absolutely right. I have always operated on the Chinese philosophy that it is better to light a candle than to curse the darkness. I don't know how, with 2,478 recommendations, George Will or anybody else can come out and say it's a lot of baloney in 48 hours. That's crazy, but that's the kind of reception you get when you come up with something like this.

Senator EVANS. Yes. I just hope we can perhaps use the baseball theory, that anybody up to bat who can hit .300 is a star. If we establish for ourselves an initial goal that we really think we can reach and then set about doing it, I hope we can really turn these into a lot more than the baloney Mr. Will suggests is in the report, because I have taken a lot more than 48 hours to just begin to read it. There is a lot of meat there, and I suspect there are some things I would find differences with, but I hope maybe in setting that kind of goal, everybody will feel better about the chances of reaching it.

Mr. GRACE. Yes.

Mr. BOLDUC. I think, Senator, there is at least one thing that the Senate and the House ought to give serious consideration to, consistent with the point that you are making, and that is that the Federal Government today lacks the appropriate incentives to motivate people to do better, to go after those savings opportunities, to try to make Government lean and mean and responsive to the American taxpayer. Until something is done about the current in-

centive system, it is unlikely that a greater number— whether it is a .300 batting average or a .406 batting average—is going to come about. Because, the system today does not serve to motivate the Federal worker. If the Federal worker cuts back his or her operation in terms of workload and numbers of employees that they have, their salary and their grade level is cut back accordingly. So by doing good and by saving money for the taxpayer, they lose $2,000 or $3,000 a year and so do their employees. Thus there really is no incentive.

Senator EVANS. I suspect that in the bowels of some private enterprises the same thing tends to occur; that people with a certain unit are somewhat hesitant at times, to reduce in size.

Mr. BOLDUC. I am sure there are some someplace but if you take a cross section look at the private sector, you will find incentive systems every step of the way, because that's the name of the game.

Senator EVANS. I agree. I would love to see that sort of thing established in government generally, and at the Federal level. It would be marvelous to have a bonus system, as is prevalent for managers in private enterprise, and to relate bonuses to performance. That would be a tough thing to get across but I think it could be a remarkable moneysaver.

Mr. BOLDUC. No reason why it can't be done.

Mr. GRACE. Yes; I don't see why it is tough, Senator. You're right; it is tough, but I see no reason why it is tough.

What we have to do here—I'm talking about ourselves—is to convince the American people how serious this is. I have 9 children and 12 grandchildren, and I'm worrying about 16, 17 years from now with an annual deficit of $2 trillion, a debt of $13 trillion, an annual interest of $1.5 trillion. By that time they'll be doing anything, including maybe shooting each other on the street, because there will be no freedom or anything, so we're going to have to find a way to do some of this stuff if we're going to save our children's future.

Senator EVANS. I agree. We've got to work together to do it.

Mr. GRACE. Yes, yes.

Senator EVANS. Perhaps we'll find some of those mechanisms over time.

Mr. GRACE. I hope so.

Senator EVANS. I just suggest that goal-setting is an important part of this whole thing, and in setting a goal, whether it's business or anyplace else, if you set a sales goal for somebody that is unattainable, it's hard for that person to really get started and to really get going on it.

Let me get to a couple of specific questions on the user charges as they relate to ports. What about the potential concern of maintenance of certain ports on our coastlines which may be useful to have for national defense purposes, especially to have with navigational depths at certain levels, that may not, under a total user fee system, be maintained?

Mr. GRACE. Well, I think the first thing we ought to do is to see what ports on what user system would not be maintained to hurt us in what kind of a war, because we're going to be fighting different wars and we have a lot of ports today, you know, that could

satisfy—it seems to me—the requirements of the defense establishment in any kind of a war that one can envision, due to the World War II buildup.

Senator EVANS. Would you suggest that to the degree that there may be ports that are required or desirable for whatever defense purposes and that cannot be maintained through user fees would be a responsibility of the Defense Department?

Mr. GRACE. Absolutely, absolutely.

Mr. BOLDUC. I really think you need to separate one from the other. I don't think you can commingle them and apply the same uniform policy to both. One has an impact on national defense and the other has an impact on the financial side, which require two different criteria.

Mr. GRACE. And we shouldn't get them confused, to the extent that people will always try to bring a national defense situation in——

Senator EVANS. Oh, I'm sure of that.

Mr. GRACE [continuing]. But it may not be pertinent.

Mr. CLAUSEN. Can I respond to that question as well? There is an analogy to the national defense question when we looked at the national parks and recreation areas. There is a public policy to be served in most of the activities of the Federal Government. We found one of the great things lacking in user charge programs is the ability of the executive manager to allocate between competing interests of the public policy and the private benefit. It is particularly one of the major points the Supreme Court addressed in the *Federal Communications Commission* case. I think that the things that have been said earlier about the need for better information systems to be able to make those allocations would be very helpful in this area.

Senator EVANS. Well, that's part of the messy but necessary responsibilities, I guess, of Congress, to try to sort some of that stuff out sometimes.

One further question: When you talk about user charges as it relates to the Federal Government, are you suggesting that necessarily that is something that would have to go directly to the particular users of a port or waterway, or just to say that it is the responsibility of the local community and they can make a decision whether they want to support it through general taxpayers, partially or wholly, or in turn set that——

Mr. GRACE. The latter, the latter.

Senator EVANS. OK. Then one final question: When it comes down to user charges, who are the users? Are you suggesting that only those on the shipping side or would you broaden the user charges to those who are shipping? One are the ships themselves; the others are those who are shipping cargo on the ships.

Mr. GRACE. Well, the ships themselves because then they'll find a way to spread that cost over their users, so we get the guy who uses it and then the guy who uses the guy who uses it and the guy who uses the guy who uses the guy.

Mr. BOLDUC. The key thing to user charges is, keep it simple. Keep it simple and try to focus on the one who, in turn can—within the private sector—pass charges on to whomever is occupying or using his or her services.

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Senator EVANS. You don't have anything against a port manager trying to come up with a user fee system, saying: "We'll charge each of the ships coming in on a certain basis so much, and each ton of cargo moving across the dock so much."

Mr. GRACE. Right, if that's what he thinks is necessary to maintain his port.

Senator EVANS. Sure. OK.

Senator STAFFORD. Thank you, Senator Evans.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. I had the privilege of hearing Mr. Grace and Mr. Bolduc when they appeared before the Finance Committee.

Mr. GRACE. You've had enough?

Senator CHAFEE. No, it bears repetition, and the presentation isn't diminished at all by hearing it the second time.

Mr. GRACE. Thank you.

Senator CHAFEE. I think, Mr. Grace—this is a little aside—when I was in college you came up to play hockey with the St. Nick's hockey team. Is that possible?

Mr. GRACE. You've got some memory. I was the goalie on the St. Nick's for 5 years, yes.

Senator CHAFEE. That's what I thought.

Mr. GRACE. And we would have gone to the Olympics, except Hitler eliminated the Olympics in the forties, 1940. We were doing that in order to be the Olympic team, but then there were no Olympics.

Senator CHAFEE. Well, I can remember. I was a freshman at college and I went down to see the St. Nick's team play the Yale varsity, and I remember you were playing goalie——

Mr. GRACE. Thank you.

Senator CHAFEE. And I think Stuart Eigelhart was on that team, wasn't he?

Mr. GRACE. He was, Stuart Eiglehart was. He had a tryout with the New York Rangers, so he was better than I was. I only played with the Rangers for 2 years in practice but I never got a contract offered, but Stuart did.

Senator CHAFEE. Well, that's a little aside.

Mr. GRACE. Yes.

Senator CHAFEE. It doesn't have anything to do with cost reduction but it's a little bit of incidental memory, and I just want you to know I remember you as an athlete.

Mr. GRACE. Thank you very much, Senator. The only thing you didn't say is, "I now understand what you're saying, because you played goalie for 10 years without a face mask."

Senator CHAFEE. Yes, I remember; I don't know how people did it those days.

Mr. Chairman, could Mr. Brayman tell us or somebody tell us whether there are any items in this report that are under the jurisdiction of this committee other than the port user fees.

Mr. BRAYMAN. Yes, sir, there are.

Senator CHAFEE. Are there?

Mr. BRAYMAN. Yes, sir.

Senator CHAFEE. I think I personally would find it helpful, Mr. Chairman, if we could have those delineated, because obviously we

can't do something about free firewood programs in the national forests and so forth, but the things that are under our jurisdiction—oh, you've got it marked? Well, I would like to have my people go over this. I don't know how you want to handle this, Mr. Chairman, but there's a lot of good stuff here. For every recommendation I'm sure somebody can come forward and find an objection because somebody's ox is being gored, but that I don't think should diminish it. I think the approach that Senator Evans has suggested, that we try for some goal, is a salutary one. Perhaps we could do something along those lines.

Senator STAFFORD. It would be the Chair's intention this morning to focus on user charges, because that's the purpose of this hearing, but the Chair would, if there is no objection, reserve to all the members of the committee the right to submit some questions in writing, which don't have to be relevant purely to user charges, if that would be agreeable to you.

Mr. GRACE. Yes, sir; we are here to serve.

Senator STAFFORD. Yes; then we can handle the other issues basically in that way, if that is agreeable to Senator Chafee.

Senator CHAFEE. Let me just try the counterargument to the user charge, if I could, say from the barge operators. I haven't got all their arguments down but basically it seems to me what they're saying is that they have to dig out, they have to pay a substantial amount for the clearing of these ports because they are hauling in oil, say, into Norfolk, but the real beneficiaries are the coal operators, the coal shippers who are hauling it down from the West Virginia mines and coming into Norfolk there and then out it goes, so they are the ones that benefit. Would these user charges continue annually?

Mr. GRACE. Yes, and you can determine, Senator, who is benefiting. I mean, you could get—it's very simple to find out who is benefiting—2 or 3 days, you know, to get the facts. You could see who is getting the most benefit. People are always saying that the other guy is benefiting more than they are. You know what I mean. That's a self-serving statement, and at some point, as you said, you're going to have to stick different people, and somebody has to decide who is getting the benefit and that's it. You know what I mean? They do say that.

Senator CHAFEE. Yes; all right. Well, I appreciate what you have done, Mr. Grace, you and your group, and particularly the time that you have spent. I think, as you have accurately pointed out, that the followup work is as important as the writing of the report. If you can stay after us and keep sounding the alarm on these deficits, we have spent some time looking at these deficits, and when you are borrowing $1 out of $4 you spend, as the U.S. Government is currently doing, to try and get any kind of financial discipline on top of that is a tremendous job. You're only going to do it by stepping on somebody's toes.

Mr. GRACE. Yes, it's terrible.

Senator CHAFEE. Everybody's having a considerable degree of enjoyment from what the Federal Government is spending now, and when you cut it off you're antagonizing a lot of people.

Mr. GRACE. You really are, and I get it all the time. I'm looked upon as a real louse, and I was chairman of Mayor Beame's adviso-

ry committee in New York City when the banks refused to roll over the debt. Now, of course, they bring the Big Mac in and they get the city organized, and although the city is dirty and you can't walk on Fifth Avenue after 9 o'clock at night without getting mugged, we're still getting by and with a hell of a lot less services. So, I mean, we did it. It can be done, so that's the way it has got to be done in the Federal Government, it seems to me.

Senator CHAFEE. All right, fine. Thank you very much.

Mr. GRACE. Thank you, Mr. Chairman.

Senator STAFFORD. Thank you, Senator Chafee.

Senator Simpson.

Senator SIMPSON. Thank you, Mr. Chairman. It's a pleasure to see Dan Evans here, and good to have him as a member of the committee. I know we all share that.

Well, I want to thank you very much for what you've done for our country in presenting a most provocative array of stuff. Really, I've been very interested and I am trying to digest the material as it affects the areas that I have jurisdiction with, chairing nuclear regulation and immigration and veterans affairs. You made some very provocative recommendations with regard to veterans affairs. There has been a great cry go up from the veterans' organizations. I can tell you there are 30 million veterans and I think I have heard from them all.

Mr. GRACE. You didn't hear from me. I'm a veteran.

Senator SIMPSON. No. I didn't hear from me, either, and I'm one too.

But indeed I admire you. You're certainly courageous. I really extend to you my admiration and respect. I really do.

Mr. GRACE. Thank you very much, Senator Simpson.

Senator SIMPSON. I got to thinking, well, we're all in it and so it's not a lecture. I got to thinking of my own situation and I said, "How, Simpson, have you been dabbling in the Treasury along with everybody else?" I thought of one quick one: I borrow on my GI life insurance policy at 5 percent, and I want to thank everybody in the room for paying the difference because the Government borrows it at 16 percent and loans it to Simpson at 5 percent, and I get paid $70,000 a year, so I handled it in the American way. I cadged it out of my wife and paid it back.

Mr. GRACE. Well, one of the things we suggested, if I might just say one thing, Senator, there are so many subsidies of all kinds that all kinds of people are getting, that we suggested that the whole thing be toted up and that we issue something like a W-2 form so that at the end of the year we can see who are the recipients and to what extent.

Take the social programs. There are 63 million recipients. If you double count, due to the four or five programs that you can participate in, there's probably 85 million participants but nobody knows, so if we could only get a W-2 form so people had to list what their benefits are, then we'd get some idea of how we can get this thing. You've got a lot of people who are way over the poverty level, you know, who are getting benefits, and we are going to impoverish future generations. The moral question there is really pretty heavy, I think.

Senator SIMPSON. Well, it certainly must be addressed, for your children and mine and for the country.

We talked about these user fees and caps and so on, and I won't go into that amendment, which was a very interesting and thorough debate in this committee as we often have. The amendment which was to limit the Federal participation failed on a vote of 8 to 8, and very diverse nonpartisan type of bipartisan vote on both sides.

There is a provision in the bill which created this Inland Waterway Users Board. One of the things about that board to me was, it seemed to be composed only of members who were shippers or users and there was not a broad enough base for the general public. I know that it would be unfair, and I am not trying to run with what you had to garner and gather together, but if you have looked at that or your staff have looked at that, do you feel that that type of board with that kind of composition would be effective in reducing the Federal cost for maintenance—I would be interested—or whether that board, as you look at it in the legislation, could be made more effective by a broadening of membership, or should there be other interests represented? I would be very interested in your comments.

Mr. CLAWSON. Well, as I stated earlier, the board concept wasn't in previous legislation that had been examined by our task force.

Senator SIMPSON. No.

Mr. CLAWSON. Nevertheless, we considered generally in user charges programs how the using public, the beneficiaries, might have some say or influence other than through their elected representatives, particularly if they are paying for these particular services. It came up a great deal in the study of the Coast Guard when we were talking about user fees for recreation boat owners and what influence they might have as to the kind of service they were going to get.

The concept of a board composed of those who use the services we think is a good one. Such a board can give some advice or play some role in the decisionmaking process as to what projects, the level of services or products to be provided and, if you will, the user fee or the rate to be charged—all of the factors that are involved. You asked the question about how broad a representation should be on that board, and I think you fortunately gave me a good out. It's difficult for me to say that at this point who should be on such a board because you have to kind of determine first who the users are.

If you're talking particularly about inland waterways, there appears to be a fairly broad range of users and only barge owners or ship owners may not be sufficient because you do have those people who are shipping on the ships and barges that may want some influence. But I don't know how far back you want to go, then. You have to draw the line somewhere, and it becomes unwieldy at some point. Without a thorough look at the particular area, I would not want to comment as to how broad this particular board should be.

Senator SIMPSON. I thank you. I know I, too, don't want to see it unwieldy, but I think it needs a broader spectrum of interests than just——

Mr. GRACE. I think it does, too.

Senator SIMPSON [continuing]. Those who are interested in keeping the rates down.

Mr. GRACE. Yes.

Senator SIMPSON. Here is an interesting thing: In 1984 the Federal costs for inland waterways will be $631 million. The users of the waterways will be kicking in about $54 million of that cost, and between 1984 and 1988 it is estimated that the corps will spend nearly $3.1 billion on navigational facilities, and during that time users will supply only about 10 percent or about $325 million. That is reaching, obviously, a point of no return. I have a lot of difficulty with the Corps of Engineers, I really do. I think that I have said some harsh things, and as I reflect on them over 5 years I wouldn't retract a word of it.

So we're going to have the Government increase the user charges, and including this $3.1 billion, and I don't want to be punitive to the barge industry. That's not my bag. That's not what I'm up to. I think railroads should pay their share; truckers should pay their share. Somehow I think that barge persons and owners have not paid the same share over the years that truckers and railroads have. Now maybe I'm misreading that but that's what I find.

Now we're going to get the full load, that if we do this we're going to knock these barge people out of business and that they will perish and that there will be a lot of difficulty. What is your view of that with regard to where we are, whether we would go up 3 mils per ton-mile or 1 mil per ton-mile? Where do we come there? I don't want to come to a punitive thing but I can't believe that when they're putting up 10 percent of the cost, that they're getting hammered in any way.

Mr. GRACE. Well, I would just like philosophically to say that I have been in the shipping business a good part of my working life, and basically any form of transportation has to compete with other forms of transportation. If they are being subsidized unreasonably versus the truckers and the railroads, then there is not an economic justification for them to be in existence. It comes down to that, I mean, unless you're going to say that the Government is going to keep everybody in business regardless of the economics of the situation and all the taxpayers will have to contribute.

Now if you're not running a massive deficit, maybe that's politically acceptable, but when the deficits get as bad as they are I don't think we can afford to keep any system going that is not carrying its own weight unless it's so obviously necessary that nobody would even consider abolishing it. I don't want to punish the barge lines. I mean, we're in the fertilizer business and we're using the barge lines consistently. You know, guess how we get our fertilizer up to the Midwest from Florida? It's very, very helpful, but if the taxpayers are paying for that we ought to pay more, and if we don't we'll truck it or we'll use the railroad. That's a constant tradeoff decision you're making all the time, Senator, and I just think that has to be done for the sake of the overall taxpayer.

Mr. BOLDUC. Senator, there are really two pieces to the puzzle. One piece is current and existing services for which a capital investment has been made and for which you are attempting to recover ongoing service costs. The other is new investment: The $3.1 billion that you talked about with respect to the Corps of Engi-

neers. My experience in Government—and I served previously as a Presidential appointee—has been that when you establish a policy up-front and tell the senior level managers in Government that when they come before this committee for an increase in their budgets for purposes of enlarging their programs, their budget should specifically identify how they are going to recoup those service costs, from whom they're going to recoup them from and over what period of time. You'll find that frequently the nice-to-have kinds of things go away and managers come forward with only those that are absolutely necessary. Because, then they have to go back and defend to the user community those charges attributable to increased program services.

Based on what Peter said earlier, you know, it's easy to come forward. When anything is given for nothing, everybody opens up their hands. If you want to take a look at a very simple comparison in the public arena with respect to user charges, take a look at what has happened over the course of the last 15 years in Government as it relates to the use of data processing services. It used to be in Government that if you wanted to use the computer, you would simply turn over to a computer jock and say, "Here's what I want. Give me a system; give me a program; give me an output." No charges.

Over the course of the last 10 years the Federal Government has adopted the concept of what is called a working capital fund that says, "If you want to use my computer, you're going to have to pay for the usage of that computer because I have to procure that computer and I have to manage it like a business." All of a sudden, the demand for the use goes down and it's being managed on a more businesslike basis. That's what I would do if I were sitting on the other side of the aisle with respect to new service requests. I think you have to divide it up between new requests and existing services.

Senator SIMPSON. Well, I thank you, Mr. Chairman.

Did you say—I think it was this gentleman—that there were 329 agencies or collection points with user fees in this country? Did I hear that?

Mr. BOLDUC. No. There are over 1,500 programs that are commercial in nature and lend themselves to the collection of user fees, for which $40 billion a year is currently being collected, but there are thousands of others that we identified beyond those which services are being provided pro bono. Is that right, Jim?

Mr. CLAWSON. Yes, but I think it was accounting systems, you said there were something like——

Mr. BOLDUC. Oh, the 300 was the 332 incompatible accounting systems in the Federal Government, of which 37 percent have never been approved by the General Accounting Office. As a matter of fact, Senator, this Government today cannot tell you what their overhead cost is. There is not one agency in Government, including the Corps of Engineers, that can tell you what their overhead cost is.

Mr. GRACE. And when you examine student loan programs, you find they've got three programs. One of the first questions that we had when we looked at the loans that are not being paid was, "Well, why not have one student loan program? What would that

save in overhead?" We still can't find out what the overhead is for the three or have any idea what we could do by consolidating them into one—you know, the way we do in business, so there's just thousands of situations that you can't analyze, and we only scratched the surface of this situation, Senator. I mean, if we stayed here another 2 years and had some funding, and were able to get some accounting people in and do some analytical work, we could do a better job, but we didn't have the funds or the people to be able to do that, especially since there's just not the information that you need.

Senator SIMPSON. Well, thank you, Mr. Chairman. I have some written questions that I'll submit. Again, I appreciate what you have done very much.

Mr. GRACE. Thank you.

Senator STAFFORD. Well, thank you, Senator Simpson.

Mr. Grace and your colleagues, we certainly are grateful to you for the time and trouble you have gone to to be here, and I think the country should be grateful to you for the Grace Report.

Since Senator Chafee remembers your playing hockey and you have reminded us you did it without a face mask, I'll say the chairman can understand the problem. I played football for 8 years before the days of face masks, also.

Mr. GRACE. Good. Have you got your teeth?

Senator STAFFORD. I've got my teeth, but——

Mr. GRACE. Well, I don't. I had them all knocked out.

Senator STAFFORD. If there are no further questions, we will have some in writing, if that's agreeable.

Senator EVANS. Mr. Chairman, I've just got one.

Senator STAFFORD. Yes, Senator Evans.

Senator EVANS. To follow up on some remarks that Senator Simpson made, we've had pretty good relationships in the Northwest with the corps, but it brings up a question: On the actual carrying out of the dredging that leads to many of the user fees, the maintenance of the ports, the Corps of Engineers is doing a lot of that work now. Have you looked at the potential actual cost of doing the dredging and the maintenance of port facilities if they were done by private enterprise rather than the corps? Have you tried to examine the efficiency with which they do the work?

Mr. GRACE. I don't think we looked into that, Senator.

Mr. BOLDUC. We did not. We did, however, look at several functions that are commercial in nature, as to what the cost would be if they were privatized, such as commissary operations and a series of others, but we did not with respect to the corps.

Mr. GRACE. What did we have, $20 billion on privatization?

Mr. BOLDUC. $28.4 billion.

Mr. GRACE. Yes, so in other words, we did not look at privatizing the Army Corps of Engineers, but we looked at as many privatizing situations that we had the time to examine, but we didn't look at that one. I would have to say to you, based on every other study that we've made, that I would have to believe it would be cheaper because it always is. Furthermore, you have to look at the total cost. If you took the Army Corps of Engineers' situation in and took the military retirement and costed that into the thing, you know, you would probably privatize it.

Senator EVANS. Yes. OK. Thank you.

Senator STAFFORD. Thank you, Senator Evans.

Thanks again, Mr. Grace and your colleagues.

The committee will stand adjourned.

[Whereupon, at 11:20 a.m., the committee recessed, to reconvene at the call of the Chair.]

[Mr. Grace's prepared statement and responses to written questions follow:]

TESTIMONY OF MR. J. PETER GRACE
BEFORE THE SENATE COMMITTEE ON
ENVIRONMENT AND PUBLIC WORKS
FEBRUARY 22, 1984
DIRKSEN SENATE OFFICE BUILDING - ROOM 406

Mr. Chairman, I am pleased to accept your invitation to address the work of the President's Private Sector Survey on Cost Control (PPSS) and to identify some of the major recommendations of our User Charges Task Force as well as other Task Force recommendations related to areas under this Committee's auspices.

My name is J. Peter Grace and I was the Chairman of the PPSS and I am Chairman and Chief Executive Officer of W. R. Grace & Co. With me is Mr. J. P. Bolduc, who was the Chief Operating Officer of the Survey and who is a Senior Vice President of W. R. Grace & Co.

I'll be discussing today those PPSS recommendations which I believe will be of particular interest to this Committee including:

Full-cost recovery for the sale of government-generated electric power.

Savings - $4.5 billion over three years.

Full-cost recovery for the construction, operation and maintenance of deep draft ports and channels and inland waterways.

Savings - $1.3 billion over three years.

Full-cost recovery for Coast Guard services provided in non-life-threatening situations.

Savings - $418 million over three years.

These and other recommendations related to the broad category of user charges will be further discussed, however, I'd like to begin with an overview of PPSS's formation, organization and conclusions.

President Reagan decided in February 1982 that it would be useful to have a study of the Executive Branch of the Government by members of the private sector, and he invited me to become Chairman of this effort. He felt a survey patterned after the Private Sector Study he instituted when he was Governor of California would be useful in identifying inefficiencies, overlap and waste in the operation of the executive departments and agencies. The President is very concerned about the tremendous increase in the cost of operating the Federal Government which has gone up more than

sevenfold since 1964, from $119 billion to $854 billion for 1984. I share his concern.

On June 30, 1982 the President's Executive Order was issued establishing the PPSS, and we started to organize the 161 executives who had been recruited from the private sector into Co-Chairmen of 36 different Task Forces. Each Task Force was assigned to examine one or more of the departments or agencies in the Government or some functional area cutting across Government such as procurement and asset management. In addition, 11 special reports were prepared by the PPSS Management Office to examine areas of special interest.

In organizing this effort, the private sector was requested by the President to finance the entire survey. Accordingly, we recruited more than 2,000 volunteers from the companies of the Executive Committee members and others, and we raised $3.4 million from the private sector to pay for the central administrative expenses of the project. We created a special Foundation to handle the financing of these administrative costs. In total, the private sector incurred more than $75 million on the survey.

The 47 Task Force and Management Office Reports, consisting of more than 20,000 pages of material and including

2,478 recommendations, have all been submitted to the President.

The areas of Program Waste and Inefficiency, and Systems Failures account for $312.2 billion or almost three-quarters of the $424.4 billion total savings identified in those reports, as summarized in the next chart.

(Table Follows)

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL (PPSS)

RECOMMENDED SAVINGS
OVER A 3-YEAR PERIOD
$424.4 BILLION

	($ Billions)
Program Waste (443 Recommendations)	$ 160.9
- Subsidy Program Expenditures	
- Lending Programs and Debt Collection Activities	
System Failures (1,152 Recommendations)	151.3
- The Information Gap	
- Government Finances	
Personnel Mismanagement (422 Recommendations)	90.9
- Compensation	
- Retirement Plans	
Structural Deficiencies (211 Recommendations)	12.7
- Central Financial and Administrative Management	
- Management Tenure in Key Positions	
Other Opportunities (250 Recommendations)	8.6
Total 2,478 Recommendations	$ 424.4

In reality almost all the waste and inefficiency we found in the Federal Government can be traced to systems failures and restraints put on the management of the Executive Branch by the Congress. There is hardly anything basic in the management of Government operations that doesn't require Congressional approval, be it closing obsolete facilities, buying new computers, the wage scale on Federal construction projects, or just about anything that might result in greater efficiency including policy decisions in the VA affecting as few as three employees.

As a check on our own estimates, we employed a leading economic forecasting firm to project the Federal deficit situation with and without the PPSS recommended savings.

If fundamental changes are not made in Federal spending, as compared with the fiscal 1983 deficit of $195 billion, a deficit of over ten times that amount, $2 trillion, is projected for the year 2000, only 17 years from now.

As unbelievable as this $2 trillion may seem, it is simply the working of compound inflation and interest seen as follows:

(Table Follows)

THE POWER OF COMPOUNDING

	(1)	(2)	(3)
(1) Inflation Rate		6%	
(2) Interest Rate		11%	
(3) Combined Rate		17%	
	With $1 Saving Per Year		With $100 Billion Saving Per Year
(4) Cumulative Saving In 12 Years	$32		$3.2 Trillion
(5) Cumulative Saving In 17 Years	$71		$7.1 Trillion

The current and projected deficits are unacceptable to Congress, the Administration and the American people. However, how those deficits are to be attacked has been the subject of much debate.

The available options are simple:

- reduce costs,
- increase taxes, or
- some combination of the two.

The tax burden on the average American family is already at counterproductive levels, with the underground economy now growing to an estimated $500 billion per year, costing about $100 billion in lost Federal tax revenues per year.

The size of the underground economy is understandable when one considers that median family income taxes have increased from $9 in 1948 to $2,218 in 1983, or by 246 times, while gross income has increased just 7.6 times over the same period -- taxes up 32.4 times more than income.

(Chart Follows)

TAXES ON THE MEDIAN INCOME FAMILY

		(1)	(2)	(3)	(4)	(5)
				Average Tax Rates On Gross Income		
		Median Family Gross Income	Median Family Taxes	Actual	Required To Balance The Budget	Percent Required To Balance The Budget Above/(Below) Actual
(1)	1948	$ 3,187	$ 9	0.3%	0.1%	(66.7)%
(2)	1958	5,087	303	6.0	6.5	8.3
(3)	1970	10,216	902	8.8	9.1	3.4
(4)	1981	21,462	2,221	10.3	12.4	20.4
(5)	1983E	24,100	2,218	9.2	15.9	72.8
(6)	1983E As Multiple Of 1948	7.6X	246.4X	30.7X	159.0X	

Imagine:

- The median family's income is up 7.6 times,
- But its taxes have risen 246.4 times.

Further, to balance the budget in 1983 would have required a 72.8% increase in the average tax rate of the median income family from 9.2% to 15.9%.

Why balance the budget on the back of the median income family? Why not tax the wealthy?

Any meaningful increases in taxes from personal income would have to come from lower and middle income families, as 90% of all personal taxable income is generated below the taxable income level of $35,000.

(Chart Follows)

CAN THE DEFICIT PROBLEM BE SOLVED WITH INCREASED TAXES?

(1981)

	Taxable Income Bracket	(1) % Of Taxable Income Through Each Bracket	(2) Number Of Days Government Can Be Run If Government Takes All Remaining Income Above The Bracket As Tax
(1)	Up to $ 15,000	63.1%	206 Days
(2)	Up to 20,000	74.9	130
(3)	Up to 25,000	81.9	88
(4)	Up to 30,000	87.2	58
(5)	Up to 35,000	90.4	41
(6)	Up to 40,000	91.9	33
(7)	Up to 50,000	94.4	21
(8)	Up to 75,000	97.1	10
(9)	Up to 100,000	98.0	7
(10)	Up to 150,000	98.6	4

All taxable income not already taxed above $75,000 would run the government only 10 days.

If the Government confiscated 100% of all taxable income beyond the $75,000 tax bracket not already taxed, the additional revenue would be sufficient to run the Government for only 10 days while destroying productive enterpris.

Taxing the rich makes more sense as a campaign slogan than as a serious approach to reducing budget deficits.

That leaves reducing the cost of Government as our best bet to contain spiraling deficits and that was the purpose of PPSS -- cost control.

Implementation of PPSS recommendations would save taxpayers $1,929 billion of the projected deficit in the year 2000 -- from $1,966 billion without PPSS recommendations to $37 billion with the Survey's recommendations.

The cumulative impact of PPSS recommendations out to the year 2000 would be $10.5 trillion, or a savings of $130,000 per taxpayer.

The different recommendations have different degrees of documentation and the savings, of course, are estimates of a planning quality rather than a budget quality. In accordance with our mandate from the President we conducted a survey, not a detailed, in-depth audit. I am, however,

personally convinced that without significant changes in Federal spending patterns we will confront ruinous and freedom snuffing deficits in line with those projected.

In addition, it should be noted that our savings estimates were based on:

(a) The use of an assumed 10% inflation rate, and

(b) The use of an assumed 10% interest rate on cash accelerations.

In June 1982 when we initiated PPSS, the rate of inflation was 13.8% and the interest rate was running 14.75%.

Our assumptions at that time were conservative and, unless something is done, may yet prove to be conservative estimates of future inflation and interest rates.

Our mandate was to examine the numerous operations of the Government as businessmen.

We used the same techniques and methods of analysis that businessmen use when they investigate an acquisition, particularly the acquisition of a failing business. In such cases, we try to identify the changes we would institute to

make the business viable. We would try to identify waste that should be eliminated. What inefficiencies would we eliminate? What duplication or overlap would we correct? This was the approach we took in examining the Government. We did not examine major policy issues directly. For example, we did not study the merits of proposals to eliminate the Department of Energy or the Department of Education. We did not feel qualified to form an opinion on military strategy or weapons systems and, therefore, we did not study policies that were the basis of such procedures.

One might ask, as we have been, what experience businessmen have that qualifies them to examine the Federal Government. Following is an array of similarities between the operations of the Government and business, with specific opportunities identified to improve operations.

(Chart Follows)

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(1)	Lending Money	$764.6 Bil. loans outstanding	$1,500.0 Bil. loans outstanding	HUD makes only 3 attempts to collect loans versus 24 to 36 tries in the private sector; 41% delinquency rate on current Federal receivables.
(2)	Timberland Management	105 Million acres	347 Million acres	The U.S. Forest Service gave away $235 million of firewood in 1981, 24.5% of total commercial timber harvested.
(3)	Grazing Land Management	163 Million acres	587 Million acres	Federal grazing program collected $15 million in grazing fees while providing $41 million in services recovering only 36.6% of costs.
(4)	Hospital Management	177,000 beds	1,481,000 beds	VA hospital in the Bronx cost $191,300 per bed, about double the $97,400 per bed spent constructing the comparable Duke University Hospital.
(5)	Nursing Home Management	71,000 beds	1,029,000 beds	The VA spends $61,250 per bed to construct nursing homes -- almost 4X the $16,000 per bed cost of a major private sector nursing home operator.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(6)	Automated Data Processing	250,000 ADP employees	2,000,000+ ADP employees	Half the government's computers are so old that manufacturers no longer service them. Additional personnel expenses amount to $600 million annually.
(7)	Inventory Management	$41 Billion (over 99% in DOD)	$806 Billion	Private sector inventory replenishment techniques would save the government $4.5 billion over three years.
(8)	Electric Power	244.0 Billion KWH	2,019.0 Billion KWH	Government subsidized power, sold at one-third market rates, costs industrial users only 2.45¢ per kwh in the Northwest compared to 12.09¢ per kwh paid in San Diego for power generated by the private sector.
(9)	Borrowing Money	$1,381.9 Billion national debt	$420 Billion corporate bonds outstanding	Federal borrowing from the public of $135.0 billion in 1982 was 33.0% of the $408.7 billion raised in U.S. credit markets.
(10)	R&D Funding	$38.5 Billion	$36.1 Billion	Government R&D bureaucracy requires that Oak Ridge researchers consult 114 DOE offices for funding approval.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(11)	Transportation of Persons	$5.2 Billion	$20.4 Billion (non-user operated transportation)	Since 1955 the government has been prohibited from using private sector travel agents and benefitting from their expertise; a 1980 DOD plan for a professional travel service was rejected by Congress. The government did not issue credit cards for travelers until we recommended it.
(12)	Payroll	$61.8 Billion civilian payroll	$1,090.0 Billion payroll	It costs the Army $4.20 to process a payroll check vs. $1.00 average in the private sector.
(13)	Freight Handling	$5 Billion	$30 Billion	The Federal government does not negotiate volume discounts on its enormous freight charges.
(14)	Building Maintenance	2.6 Billion square feet	10+ Billion square feet	The General Services Administration employs 17X as many people and spends almost 14X as much on total management costs as a comparable private sector firm.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(15)	Pension Benefits	$19.5 Billion Civil Service (CSRS)	$300 Billion	Pension benefits for the CSRS are 3 times those in the private sector.
(16)	Pension Fund Assets	$96.1 Billion Civil Service (CSRS)	$481.1 Billion	CSRS rate of return in 1980 was 7.4% compared to 14% and over for a majority of private sector plans.
(17)	Vehicles Managed	436,338 non-military	155,900,000 motor vehicles privately and commercially owned	Average utilization of Federal vehicles (excluding USPS) is 9,000 miles per year. However, effective utilization, per private rental firms, is considered to be 25,000 miles per year or 2.8 times Federal vehicle utilization. Failure to recondition vehicles prior to resale, as is common in the private sector, lowers the government's resale revenues by $15.8 million over three years.
(18)	Procurement	$159 Billion	$2 Trillion	Lack of competition or control in Federal contracts results in the Pentagon paying $91 for a 3¢ screw, etc., etc.
(19)	Foreign Exchange	$10 Billion	$181 Billion	Hedging against foreign currency changes versus other industrial countries could save the government $438 million over three years.

I noted earlier that $151 billion or about 36% of total PPSS three-year savings of $424 billion would result from correcting existing deficiencies in Federal systems. Included in this broad category of potential savings are opportunities to increase revenues by $21.0 billion over three years by instituting or increasing user charges, including $10.2 billion resulting from the specific recommendations of our User Charges Task Force and $10.8 billion developed by various other PPSS Task Forces. The total additional revenues of $21.0 billion from user charges are in the areas of:

(Table Follows)

User Charges Task Force
Three-Year Revenue Enhancements
by Major Category

		(1)	(2)	(3)
		Implementation Authority		
		Agency/ Executive	Congressional	Total
		($ Millions)		
(1)	Sales	$ 394.6	$ 4,695.7	$ 5,090.3
(2)	Transportation	-	3,333.7	3,333.7
(3)	Special Services	-	1,013.4	1,013.4
(4)	Recreation	-	527.5	527.5
(5)	Regulation & Licensing	-	209.2	209.2
(6)	Inspection & Grading	7.4	29.4	36.8
(7)	Total User Charges	$ 402.0	$ 9,808.9	$10,210.9
(8)	Compendium-Other PPSS Task Force Issues Related to User Charges	$3,693.7	$ 7,060.8	$10,754.5
(9)	Total User Charges	$4,095.7	$16,869.7	$20,965.4

Of the $10.2 billion in issues developed by the User Charges Task Force, $9.8 billion, or 96%, of total revenue enhancements would require Congressional action with the remaining $402 million attainable under Executive authority.

By way of background, the Federal Government performs more than 1,500 commercial activities which generated 1981

revenues of approximately $40 billion. The pricing, i.e., "user charge", of these products and services, however, frequently did not recover the Government's costs.

Our Task Forces' analyses confirmed the findings of a number of previous studies conducted by the General Accounting Office (GAO) and the Congressional Budget Office (CBO) that user charge policies and procedures are inconsistently applied in Executive Branch programs. Court decisions have created some confusion and misunderstanding about user charge authority. Even in those situations where there should be no question as to the application of guidelines and principles, systems employed do not provide adequate program direction and guidance. We found that management information systems, accounting systems, program evaluation, and accountability are generally ineffective.

The opportunities identified by the Task Force for increased user charge revenue generation can be accomplished by clarifying user charge policies and procedures; improving management and accountability; and Congressional action to remove existing prohibitions or grant expanded authority.

Taxpayers in general are currently absorbing many of the costs of providing goods and services to selected

discrete beneficiaries. There is no clear rationale for these special benefits. User charge programs are similar to commercial businesses and should be conducted in a "business-like" manner. User charges should be fair and equitable both to purchasers and taxpayers and this means full cost recovery by the Government.

To this end, there is the need to establish a user charge planning function in the Executive Office and an office to manage the business of user charges within each agency. In addition, new legislation needs to be introduced to clearly define user charges; establish market pricing principles such as fair market value or full cost recovery; determine how and where receipts are to be allocated and used; and establish a system of accountability. Our recommendations, which are described in more detail in the following issue summary, are intended to achieve these objectives.

(Issue Summary Follows)

USER-1 (pp. 5-9, 12-17, 23, 25, 28, 32-33)

Overall User Charges Program Management - A user charge refers to any charge collected from recipients of government goods, services or other benefits which are not shared by the public. OMB Circular A-25 was promulgated in 1959 of the purpose of developing an equitable and uniform system of charges for certain government services and property. However, Circular A-25 specifically prohibits the establishment of any accounting procedures and/or practices for tracking receipts and expenditures or other resource management information, apart from existing agency procedures and practices which are inadequate. As a means of providing an accounting for the performance of user charge programs, Circular A-25 required annual reports from the agencies. Unfortunately, senior management did not use the reports as a management tool, and the requirement was changed from annual reports to five-year reports, and ultimately dropped completely in 1974. The last user charge report issued by the Federal government was in May, 1967 for 1966. At this time, there is no published government-wide report, survey, or accounting of user charges programs. The responsibility for user charge policy and implementation at the central government level rests with OMB. There is one official whose duties include monitoring user charge activities in the Federal government. Merely compiling the collected statistics on user charges takes all of the time available, and there are no other resources available to enforce compliance with Circular A-25. In FY 1966, there were more than 1,500 user charge programs in the Federal government. While no exact count can be found in the government, there are about the same number today, according to OMB. The revenues from those programs are significant — approximately $40 billion in FY 1981. A high level of uncertainty and confusion exists in the Executive Branch about what fees, charges, and prices can be collected for government products and services because of court decisions and unclear administrative policy. Nonuniform compliance with OMB Circular A-25, which gives administrative guidance in the implementation of the user charge statute, adds to program management problems. Specifically, some agencies sell government property at market value, while others sell the same or similar products for less. For example, the Department of Defense (DOD) and the Bureau of Indian Affairs sell grazing and forage by an auction/bid system. By contrast, the Bureau of Land Management and the Forest Service are required by statute to collect grazing fees under a complex formula related to the current price of beef. There is a need for a restatement of user charge statutes, policies, and procedures to ensure uniform application of the principles. Recommends that the President establish a high-level policy team to review the existing user charge statute, obtain specific recommendations from program managers of user charge activities, and draft new legislation that will

USER-1 continued

implement the other recommendations found in this report to provide the flexibility for the efficient management of user charge programs in the Federal government. The policy review team recommended should confer with OMB to assist in the reissue of Circular A-25, with clarifying modifications. Receipts from user charge programs should be earmarked and deposited into public enterprise or trust revolving funds. Institutional or private sector accounting systems should be implemented to give senior officials and Congressional committees revenue/expense or profit/loss statements. To provide sufficient incentives and accountability to program managers to efficiently and productively manage the user charge programs, the President should reinstitute a full reporting mechanism which would allow for recognition and accountability in the management performance of user charge programs. In section B of USER-1, the following recommendations concern recreation facility user fees. There are seven land-managing agencies within the Federal government which provide recreational opportunities. These are the Department of Interior's Bureau of Land Management, Bureau of Reclamation, Fish and Wildlife Service and National Park Service, the Army Corps of Engineers at the Department of Defense, the Forest Service of the Department of Agriculture and the Tennessee Valley Authority. Given the amount of Federal funds expended and not reimbursed by users of Federal recreation facilities, an advisory group should be established to consider the necessity of Federal participation in the business of recreation resources. The agencies involved in recreation management should be directed to immediately commence institution of precise accounting for all costs which can be attributed to Federal provision of recreation facilities. These costs would include capital costs of equipment and improvements, personnel costs (including retirement, etc.), and operation and maintenance.

Three-Year Savings/Revenue Enhancements: None

Implementation Authority: Congress/Administration

32-804 O - 84 - 4

In the broad category of Sales, with additional revenues of $5.1 billion over three years, $4.5 billion, or 88%, would be generated by assuring full-cost recovery and repayment of the Federal investment in Power Marketing Administrations, and by imposing a user fee on Government-operated power. In addition, $331 million could be recovered over three years by charging foreign customers for the administrative costs of the Foreign Military Sales program; $125 million over three years by increasing grazing fees on Federal lands so that they are comparable with private sector rates; and $64 million over three years by collecting fees for personal-use firewood which is currently given away free in our national forests. Also, $27 million could be recovered by charging the private sector for Department of Agriculture Modern Soil Surveys used by farmers, real estate agents, appraisers, banks, etc.

(Issue Summaries Follow)

USER-5 (pp. 75, 82-84, 86-87)

Revise Power Marketing Administrations (PMAs) Rates - Within the Deparment of Energy (DOE) are five agencies referred to as Power Marketing Administrations (PMAs). The PMAs generate power (almost all hydroelectric) at 123 multipurpose Federal water reservoir projects and can sell "surplus power" to certain customers. The PMAs sell between 6% and 8% of all the electricity generated in the United States. PMA rate studies have been designed so that the rates have not covered interest and return on capital on a regular basis. Under the operation of the current system, the PMAs are abusing their discretion in setting rates in favor of the rate payers. While it is true that within a 50 year period the Federal government will recoup the investment in the PMAs as the money is returned, the money's value is lower each year due to inflation. As near to an even payment as possible, properly amortized, is fairer to all taxpayers who put up the funds. Despite an apparent benefit to all citizens from expanding development in the United States, those in particular regions served by the PMAs have had the advantage of the indirect use of Federal funds at low rates, and consequent low cost of power. While rates may vary, the fundamental consideration remains that here is a special benefit in having the Federal government participate in providing power, and that benefit should be recompensed. A rough comparison with both national wholesale and retail rates with those rates charged by Bonneville (the largest PMA) supports the Energy Task Force estimate that PMA rates are about 50% of market. Recommends that the Secretary of Energy direct the DOE to revise its orders and regulations to ensure full cost recovery and repayment of the Federal investment in the shortest reasonable time, that the Secretary of DOE direct that a user fee be imposed on the basis of the benefit received by users from the government generated hydropower (the fee should be set at one-half the differential between the rate set by the present system and the cost of privately generated power in the area), and that Congressional authority be sought to eliminate the current FERC review of PMA ratemaking.

Three-Year Savings/Revenue Enhancements: $4,542.9 million

Implementation Authority: Administration

USER-10 (pp. 119, 122-126)

The Department of Defense's Foreign Military Sales (FMS) Program Should Improve Its Pricing Policies In Order To Recover 100% of the Cost of Administering the Program and the Cost of the Products - The FMS program is one of five major security assistance programs through which the United States provides defense articles, military training, and other defense-related services to foreign countries. It was the intention of Congress when they passed the Arms Export Control Act (AECA) that all direct and indirect costs of administering the FMS be recovered so that the program would not be subsidized by appropriations. FMS has grown from just over $1 billion in 1970 to a $20 billion program in 1982. With that growth has come a multitude of management problems. The General Accounting Office (GAO) has conducted studies and issued more than 50 reports to DOD and Congress on various aspects of the FMS program. FMS has historically been decentralized in terms of cost analyses, pricing decisions, coordination, control, communications, and timely response with key participants in the decision-making process — i.e., State Department, DOD, Congress, foreign buyers, contractors, and the other military services. The multitude of GAO reports on various functional and pricing deficiencies illustrate the problems that exist in the present decentralized management organization structure. These reported problems include: failure to charge foreign customers for hundreds of millions of dollars of cost properly chargeable to them under the program; breakdown in the Army's accounting control for its customer orders which contributed to a $225 million violation of the Anti-deficiency Act; the Navy's inability to reconcile $554 million in differences between foreign government cash balances on its records and balances shown in the FMS trust fund; Defense Security Assistance Agency's (DSAA's) and Security Assistance Accounting Center's (SAAC's) inability to accurately account for the value of foreign military sales which resulted in over $2 billion of accounting errors, inconsistencies, and differences and which may have caused the President's military arms sales ceiling to be $420 million higher than it might otherwise have been; and continuing subsidy of sales of secondary items to foreign governments because of poor pricing policies. Recommends that the Secretary of Defense direct the transfer of DSAA and SAAC functions to the DOD Comptroller, who should be assigned specific responsibility for formulating, implementing, administering, and monitoring FMS pricing and financial management. The detailed price computations and procurement functions should continue to be performed by the procurement personnel at the branch level.

Three-Year Savings/Revenue Enhancements: $331.0 million

Implementation Authority: Administration

USER-6
(pp. 90-94)

The Department of Interior's Bureau of Land Management (BLM) Should Increase User Fees Collected From Its Grazing Fee Program on Public Rangelands - The BLM administers approximately 325 million acres of public lands, and the estimated appropriation for 1983 for "renewable resource management" (which includes range management) is $102 million. In FY 1981 BLM collected approximately $23 million in grazing fees under the Public Rangelands Improvement Act (PRIA) formula. That formula was established on a trial basis for seven years from 1978 to 1985. Prior to 1978 fees were collected on a formula that was attempting in ten incremental steps to arrive at a fair market value for the forage on public rangelands. The grazing fee mandated by PRIA is not as high as nearby commercial rates or competitive bids made for comparable grazing on Department of Defense (DOD) and Bureau of Indian Affairs (BIA) land; the fee charged is $5 to $15 per Animal Unit Month (AUM) on all these lands. The 1966 Western Livestock Survey and the 1969 legislation establishing grazing fees for the public rangelands adopted a policy of seeking fair market value for grazing fees on public lands. If that legislation were still in effect the current grazing fee would be $2.97 per AUM. The 1982 fee collected under the PRIA formula is $1.86, or 37% less than the previous fee schedule. The PRIA formula builds into the fee schedule an "ability to pay" component which is not based on the fair market value of the forage. The annual grazing fee under the PRIA formula has been decreasing over the past three years. In 1981 the fee was $2.30, in 1982 it was $1.86, and in 1983 it is estimated that the fee will be approximately $1.50. At the same time the government fee is decreasing, the private land lease rate has been increasing. The Federal government is receiving less than fair market value for the forage on the public rangelands administered by BLM. While the original intent of the PRIA legislation was to approximate market value, the ability to pay component effectively reduces market value and, as can be seen from the trend in the grazing fees, the grazing prices are falling farther behind rather than catching up, which was the original intent of the 1969 statute. Recommends BLM file an interim report in the format requested under the PRIA legislation and submit the report to Congress before the end of the seven-year trial period. The report to Congress should recommend either an auction-bid system, as recommended by Congressional Budget Office, or a new fee formula that would more closely recover fair market value for the forage on grazing lands.

Three-Year Savings/Revenue Enhancements: $76.1 million

Implementation Authority: Congress

USER-7
(pp. 96-102)

The Department of Agriculture's Forest Service (FS) Should Increase Its Collections For Grazing on Public Lands - FS administers its grazing program along with the Bureau of Land Management (BLM) in the Department of the Interior. The FS program encompasses 102 million acres of grazing allotments in 36 states. In 1981, $34.3 million was appropriated for the management of the program, and grazing fee receipts of $14.9 million were collected (43.4% of budgeted spending). In 1969 a new fee system was implemented that was intended to bring grazing fees to fair market value by 1978 through ten incremental adjustments. Through 1975 only four incremental adjustments had been applied, and a new study was requested by Congress. In 1977, a moratorium was placed on scheduled fees increases and in 1978 Congress passed the "Public Rangelands Improvement Act" (PRIA). The PRIA legislation established the current grazing fee formula as a trial for a seven-year period from 1978 to 1985. This fee schedule adjusts the value of the forage by annual fluctuations in the cost of the production and prices paid to ranchers for beef. The 1969 fee system, which was related to fair market value, used a complicated formula for determining the comparative forage value of public lands versus private lands. One of the major considerations by Congress in making the changes to the grazing fee legislation was a finding that "vast segments of the public rangelands are producing less than their potential for livestock, wildlife, habitat, recreation, forage, and water and soil conservation benefits, and for that reason are in an unsatisfactory condition." FS estimates today that approximately 70% of its 102 million acres is in satisfactory ecological condition. With regard to the potential for additional forage or the ability of the land to produce, the majority of the acreage remains in unsatisfactory condition. The 1969 legislation establishing grazing fees for the public rangelands adopted a policy of seeking fair market value for grazing fees on public lands. If that legislation were still in effect the current grazing fee would be $2.97 per Animal Unit Month (AUM). The 1982 fee collected under the PRIA formula is $1.86, or 37% less than the previous fee schedule. Current estimated market rate is $8.80 per AUM (on average, as western land is worth $10.00 per AUM in the private market and has been as high as $14 for prime land). The PRIA formula builds into the fee schedule an "ability to pay" component, which is not based on the fair market value of the forage.

USER-7 continued

The annual grazing fee under the PRIA formula has been decreasing over the past three years. In 1981 the fee was $2.30, in 1982 it was $1.86, and in 1983 it is estimated that the fee will be approximately $1.50. At the same time the government fee is decreasing, the private lease rate has been increasing. The Federal government is receiving less than fair market value for forage on the public rangelands administered by the FS. While the original intent of the PRIA legislation was to approximate market value, the "ability to pay" component effectively reduces market value and, as can be seen from the trend in the grazing fees, the grazing prices are falling farther behind rather than catching up, as was the original intent of the 1969 statute. Recommends that the Forest Service present an interim report along the lines requested under the PRIA legislation and submit it to Congress before the end of the seven-year trial period. The report to Congress should recommend either an auction bid system, as recommended by the CBO, or a new fee formula that would more closely recover fair market vlaue for the forage on grazing lands. Also, FS in its report to Congress should request that new legislation allow FS to deposit the receipts into earmarked revolving funds that should be made available to improve the quality of the land and forage for the benefit of the users.

Three-Year Savings/Revenue Enhancements: $49.3 million

Implementation Authority: Congress

USER-8 (pp. 103, 107-110)

The Forest Service (FS) Should Recover Additional User Charges From the Free Firewood Program in the National Forests - Prior to 1974, only those persons living on or near forest banks could obtain a permit to participate in the free use firewood program. In FY 1972, for example, 64,000 free use permits were issued and approximately 200,000 cords of free firewood removed, which amounted to about 1.2% of the total timber harvest. The energy crisis prompted FS to provide free user permits to anyone, regardless of where they lived, as long as the wood they cut was for personal use. Reaction to this revised policy was immediate and overwhelming. From 1974 to 1980 free firewood demands increased 450% from one million cords removed, or 5% of total timber harvest in 1974, to 4.5 million cords removed, or 26% of total timber harvest in 1980. In FY 1981, over 900,000 permits were issued, allowing removal of some 4.2 million of cords of wood. FS estimates that between the years 1986 and 2000, in some regions of the 155 national forests the free firewood program removal may exceed the annual programmed timber harvest. FS is making available, free of charge, more than 4 million cords of firewood with commercial value. In addition to making this publicly owned natural resource available free to over 900,000 beneficiaries, FS estimates that in excess of $5 million per year is needed to administer the program. In 1981, FS conducted a study of the firewood program and determined that some regions were experiencing short supplies. The study pointed out that by 1985 one entire region will have a demand for free wood that exceeds the supply. FS has proposed that it continue to isssue permits, but establish an appraised value on a per cord basis for the firewood removed from the national forests. Depending on quality, commercial firewood is estimated to cost about $18 per cord to produce, with economies of scale increasing profitability (firewood sells on retail markets for $45 to $120 per cord, which includes labor and delivery charges). Management systems do not exist that will track the cost of administering the firewood program. There appears to be no accountability for costs as related to revenues or program benefits. Recommends that a minimum of $10 for a firewood permit be charged and an additional nominal fee of at least $5 per cord, and that the timber management office of FS implement a management information and accounting system that would track the cost of issuing firewood permits. Further, FS should review administrative cost data from those regions using bid/auction pricing systems and, if the costs of the bid/auction system for firewood are comparable to a nationwide fee system, the bid/auction system should be implemented.

Three-Year Savings/Revenue Enhancements: $63.6 million

Implementation Authority: Administration

USER-9 (pp. 113-116)

The Department of Agriculture's Soil Conservation Service (SCS) Should Charge a Fee For Its National Cooperative Soil Survey (NCSS) - The present SCS goal is to provide a Modern Soil Survey for the entire United States. There are 3,105 total survey areas, of which 1,197 (or approximately 39%) have been surveyed and books published. The 1,197 survey areas represent 31% of the total acreage in the United States. For another 323 survey areas, the field mapping is completed and the soil survey book (the primary final product) is in various stages of completion. There are another 377 survey areas that have field mapping underway. At the present rate the total 3,105 survey areas will not be completed until the year 2000. The annual cost of performing the surveys is funded jointly by the Federal government and state and local government entities. The U.S. government share is 80%, and the funding level for FY 1983 is $62.0 million. The soil survey reports are available to the public at no charge. In addition to the governmental users of the Soil Survey Report, a number of private sector individuals and groups consider the soil survey to be highly valuable. Individual landowners, farmers, real estate agents, appraisers, banks, and private engineering and construction firms represent the largest number of users of the Soil Survey Report. SCS reports that an average of 5,000 soil survey reports are printed for each soil survey area. The SCS reports that the average cost for soil surveys is $1.05 per acre. A fee system or a price for the survey reports should be established. However, it would be inequitable to implement a fee system to recoup the total survey cost because Federal, state, and local governments derive considerable benefit from the survey. There is also a potential problem, in that the cost for the various soil surveys varies widely. Nevertheless, identifiable beneficiaries are receiving an economic benefit from a government service/product and there should be some charge to at least partially offset the cost to the taxpayer. Recommends that the Secretary of Agriculture amend the regulations to provide for the collection of a $25 user fee for the private sector use of the Modern Soil Survey, and the Secretary of Agriculture direct SCS to devise a revenue-sharing arrangement with state and local government agencies. Included in such a system should be a management information/cost accounting system capable of identifying the exact costs associated with each Survey.

Three-Year Savings/Revenue Enhancements: $27.4 million

Implementation Authority: Administration

Of special interest to this Committee, under Transportation we recommended that user fees for deep draft ports and channels be established to recover 100% of the costs of operation and maintenance, and construction; a four-year phase in period to recover full costs; and Federal financing of construction when necessary but at market rates. These recommendations, requiring Congressional approval, would generate an estimated $747 million in user fees over three years.

Regarding inland waterway user fees, we recommended full cost recovery for operation and maintenance, as well as construction, of the Nation's inland waterways system, which would recover $601 million over three years.

PPSS has recommended to the President, as you know, that when Government services or products benefit a specific identifiable group of beneficiaries and those services and products are not shared by the general public those beneficiaries should pay for those services and products provided.

Our Task Force on User Charges reviewed the inland waterways and ports and harbors services provided by the various agencies of Government and recommended 100 percent

cost recovery for those services. In several cases, our recommendations have called for a phase-in of the user fees so as to minimize the impact on the users, but in all cases, we have maintained a consistent posture that in order to place Government on a more business-like basis, the Government should establish the goal of 100 percent cost recovery and move towards achieving that end.

S.1739 was introduced after our User Charges Task Force had completed its field work. While some of the provisions of this new bill are similar to those proposed in previous bills introduced on this general subject area, much of the bill is new and represents a step in the right direction.

Specifically, the bill provides for the principle of users paying for the special benefits they receive. Unless I am mistaken, however, those users will only have to pay for a small portion of the total costs of the many services they will receive from the Federal Government. For example, the bill provides for a cap of $646 million per year on the funds the taxpayers will have to pay to construct, operate and maintain the inland waterway system. The user fees will, therefore, only cover the new growth in the costs of the services since the current expenditures have been running about $650 million per year.

Consistent with the position PPSS has taken on prior recommendations concerning user fees, the phasing-in of user fees over several years that would recover the costs of the services that are attributable to the identifiable beneficiaries would make more sense to PPSS. Because taxpayers overall have been paying for those costs up to now is no reason to continue the practice.

I am not a politician, I am a businessman. Therefore, if it is impractical, because of political reasons, to impose user fees at a level which makes good business sense, we would strongly agree with the concept advocated by Senator Simpson that at least some effort should be made to reduce the costs that Government absorbs each year. His amendment, which would reduce the cap on the amount the government absorbs each year by $35 million per year, would bring the proposed legislation more in line with the philosophy and recommendations advocated by PPSS -- though a reduction of the cap in excess of $35 million per year would be better.

As it relates to provisions of the bill dealing with port and harbor construction, operation and maintenance, my previous remarks would again apply, i.e., the goal to be attained in recovering costs for those services provided to identifiable beneficiaries should be 100%. If a local community wishes a 50-foot deep port to accommodate special ocean traffic, it would seem to PPSS that the requesting community should pay for those costs.

The proposed bill seems to duck this issue. It recommends the establishment of a commission to further study the question of the level of user fees. The PPSS position is straightforward -- 100% cost recovery --though it may not always be politically pragmatic.

It would, however, make good sense to study further how those fees should be collected since one of the important findings of PPSS was the inadequacy of the accounting, cash management and information systems throughout the Federal Government. For example:

- The Federal Government has 332 different and incompatible accounting systems, each with its own guidelines, standards and requirements;

- The Federal Government manages a cash flow of $1.7 trillion annually and yet it has no Chief Financial Officer accountable and responsible for cash management;

- The Federal Government has 17,500 computers and 250,000 data processing employees. Half of its computers are so old that manufacturers no longer service them -- the additional personnel expenses amount to $600 million annually.

The PPSS User Charges Task Force study, and Special Reports on Federal Financial Management, the Information Gap, the Federal Management System, as well as the Summary Report to the President, can be useful to the proposed Commission. I am certain that members of the PPSS Study Team will be happy to assist your proposed Commission in any way they can.

In spite of the recognition in this proposed bill that user fees should be recovered to pay for construction, operations and maintenance of harbors, the bill will still require the American taxpayer to continue to pay for most of these and other special services that are not available to the general public. Again, as businessmen, we in PPSS find it difficult to understand why:

- The taxpayer would still have to pick up 70% of the tab for harbor construction

- The taxpayer would still have to pick up 50% of the cost for the design and engineering portions of harbor construction

- The taxpayer would pick up 100% of operations and maintenance costs for harbors up to 45 feet in depth and only 50% of all costs for maintenance at depths below 45 feet.

It is clear that the proposed bill reflects considerable negotiation and compromise. And, while S.1739 may constitute the only changes that are termed to be "politically pragmatic" at this time -- and would be a major step forward if enacted -- we would be remiss if we were not to urge this Committee and the members of Congress to continue to work towards a program of full cost recovery from those who benefit from the services or products provided by the Federal Government. American taxpayers in general should not have to shoulder the cost of privileged services.

Also under Transportation, additional user charges to maintain and improve the interstate and defense highway system through regular adjustments in highway user charges could recover $2.0 billion over three years.

(Issue Summaries Follow)

USER-19 (pp. 202-210)

The Federal Government Should Recover Costs of the Army Corps of Engineers (COE) Civil Works Program on Capital Construction and Operations and Maintenance (O&M) of Deep Draft Harbors and Channels - Deep draft harbors and channels of the United States serve a major role in the maintenance of domestic and foreign commerce. As calculated in 1981, over 1,839,723,900 tons of merchandise move through these harbors and channels. Deep draft harbors and channels are defined by COE as having a depth in excess of 14 feet. The Congressional Budget Office (CBO) reports that overall expenditures by COE for the CW program have risen from $1.2 billion in 1970 to $3.2 billion in 1981. The total COE budget proposed for the CW program in FY 1984 is $2.6 billion. Against this total, $38.0 million in fees from a diesel fuel tax on inland vessels is the only general user fee for waterway commercial transportation collected. Based upon historical data, about $500 million a year will be spent on construction and O&M of deep draft ports and related channels. The O&M expenditures from 1977 to 1982 reached $380 million per year, most of which is properly recoverable (i.e., directly related to navigation). According to COE and as used by CBO, costs projected for the next five years would be about the same plus adjustments for inflation. Capital expenditures for construction between 1977 and 1982 were on the average over $100 million per year. The Task Force examination of O&M operations for developing and maintaining draft reveals no incidental direct benefit to noncommercial users, such as work on a dam which may affect recreation use. Accordingly 100% of O&M may be fairly recovered from port or waterway users. A tonnage fee appears to be the better user fee mechanism than an ad valorem tax for O&M cost recovery. The tonnage fee can be calculated readily from bills of lading, and could be added as a surcharge. Since the fee is associated with the weight of the commodity and not its value, which is often subject to fluctuation during a voyage, it is therefore simpler to predict for fee setting formula purposes and easy to calculate. The Task Force analysis of the construction issue and controversy over user fees to recoup the costs and proposed limits on Federal expenditure leads to the conclusion that the Federal government should end its role in financing harbors, especially the giant coal harbors. The free market system should prevail. Recommends that user fee legislation be enacted to recover 100% of the cost of O&M of deep draft harbors. Administration of the user fee program should be responsibility of the COE, while collections should be managed by IRS. Recovery of O&M should be gradually implemented over a four-year period from 20% to 100%.

Three-Year Savings/Revenue Enhancements: $747.0 million

Implementation Authority: Congress

USER-20 (pp. 211-214, 219-220)

Increase Fees For Using the Inland Waterways of the Nation to Recover a Greater Amount of the Cost of Constructing and Maintaining Those Waterways - Inland waterways play an important role in the commercial traffic network of the United States. Nearly 200 billion ton-miles of commerce are moved annually with barges on inland waterways. The U.S. Army corps of Engineers (COE) manages the inland waterways system of the United States. COE is responsible for the constructon, operation and maintenance (O&M) of over 25,000 miles of inland waterways, and annually spends an average of $270 million for O&M and $400 million for capital projects (construction). Historically the O&M of these navigation facilities for inland waterway transportation have been provided at no expense to the beneficiaries. The Inland Waterways Revenue Act of 1978 was enacted to collect taxes "on any liquid used during any calendar quarter by any person as a fuel in a vessel in commercial waterway transportation." Revenues collected through these taxes are placed in the Inland Waterways Trust Fund. Under the user charge system, the Federal government collected about $24 million in 1981 and $29 million in 1982 from the beneficiaries of the facilities and services provided. To collect user fees on inland waterway use is appropriate. The fees generated under the current fuel tax are less than 2% of annual costs. User fees should more closely approximate 100% cost recovery unless a substantial allocation of expenditure can be attributed to some unique public benefit. To avoid sudden disruptions caused by implementation of 100% recovery there is rationale for implementing the cost recovery program over a number of years, as was planned for the fuel tax. If there is a need to subsidize a product or industry segment because of a legitimate concern about its welfare, it will be better to do so in a direct fashion, rather than continue indirect subsidies which benefit others who require no subsidy. Recommends that the Administration propose amendments to the existing waterway legislation to obtain full cost recovery phased in over a five-year period for COE expenditures for the operation and maintenance, as well as the construction, of the Nation's inland waterways system.

Three-Year Savings/Revenue Enhancements: $600.7 million

Implementation Authority: Congress

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USER-21 (pp. 222-223, 225-226)

Additional User Charges Should Be Collected To Maintain and Rehabilitate the Nation's Highway System - The recent passage of the 5 cent per gallon fuel tax and the increase in other highway related taxes will generate aproximately $5 billion in new revenues. While the major need for new fees has been met, there is still the issue of a price adjustment mechanism that has not been adequate to maintain the fee at the appropriate level. Recommends that the Federal Highway Administration institute a management information and reporting system that would provide sufficient data to maintain a current pricing mechanism for the user charge. Even though the charge is established as a tax by Congress, it is possible to make adjustments regularly to deal with changing economic conditions (i.e., keep pace with inflation). Congress adjusts tariff rates on imports on a regular basis. A legislative mechanism should be developed for adjustments to the fuel tax rates for highway users.

Three-Year Savings/Revenue Enhancements: $1,986.0 million

Implementation Authority: Congress

Regarding Special Services, for which PPSS recommendations would generate $1.0 billion in additional revenues, recovering the costs of Coast Guard services to identifiable beneficiaries could achieve $418 million in additional revenues, while $364 million could be recovered by obtaining legislative authority to charge for Customs Services in areas such as brokers licenses, commercial processing for trucks and trains, and clearances of yachts and pleasure boats. Also, Federal agencies and departments could recover $232 million by charging for information provided under the Freedom of Information Act (FOIA). Based on selected reviews PPSS found an average of 92% of the cost of Federal FOIA activity is subsidized by the taxpayer.

(Issue Summaries Follow)

USER-16 (pp. 168-169, 171-173, 176-177, 181)

The Coast Guard Should Recover the Cost of Its Services Provided to Identifiable Beneficiaries Through a System of User Fees - The Coast Guard provides extensive and varied services to waterway interests. Agency obligations for 1982 were approximately $2.424 billion, with interagency and offsetting collections of $153 million, making net obligations of $2.271 billion. The two primary missions of the Coast Guard are law enforcement and search and rescue. Over the years, these responsibilities have grown to include regulatory enforcement as well. Those Coast Guard programs that seem to clearly benefit the general public are the military preparedness, enforcement of laws and treaties, and polar ice operations activities. The remaining Coast Guard activities, in whole or in part, provide services to identifiable beneficiaries. Allocations for the direct service activities are available by program and, in most instances, by identifiable users. A fee can be directly related to the cost of many services. This meets the test of the general user charge statute, but the Coast Guard is prohibited from charging fees. The following activities have been identified as being of service to identifiable beneficiaries and the cost of these activities should be funded through a system of user fees: search-and-rescue efforts associated with non-life-threatening incidents; short-range navigation aids; radionavigational aids; domestic ice-breaking; commercial vessel safety; recreational boating safety; port safety and security; marine environmental protection; and bridge administration. The direct obligations related to the above services should be recovered through a system of user fees plus an allocated support cost of 25% as identified by the Coast Guard. Recommends that the Coast Guard reassess its activities to determine those that are more suitable for accomplishment by state and local governments or the private sector, that a system of user fees be implemented after obtaining legislative authority to recover the operating and support costs of those services provided by the Coast Guard to identifiable beneficiaries, and that the Coast Guard establish a user charge product manager function responsible for the development, implementation, and maintenance of user charge activities within the Agency.

Three-Year Savings/Revenue Enhancements: $418.2 million

Implementation Authority: Congress

USER-18 (pp. 192-193, 195-198)

The Customs Service Should Apply a System of Additional User Fees - Presently Customs administers some 53 functions for which it is reimbursed either for the salary and expenses of the officers performing the services or by set fees. These fees are categorized as follows: 17 user charges established by Customs for reimbursement for direct expenses; and 36 user charges established by statute (13 reimbursed by fixed fee, 23 reimbursed for direct expenses). Receipts from the programs were $62 million in FY 1981; $64 million in FY 1982; and estimates for FY 1983 and FY 1984 of $67 and $70 million, respectively. Customs has proposed a change in legislation that would authorize recovery of about 70% of the cost of Customs services (investigative and law enforcement activities are not included). The proposed legislation would encompass most of the operations of Customs, representing both services for which fees are being collected and those for which new fees would be charged. Customs is currently collecting user fees for the entry, clearance and other services provided to vessels. This user fee has been in existence for a number of years and the rationale is correct. Similar services are provided to commercial aircraft, trucks, and trains, and similar user charges should be imposed. Legislation has been proposed which would initiate user fees on commercial aircraft. To continue user charges on vessels only discriminates against that mode of transportation versus other modes. Recommends that Customs proceed with the implementation of the proposed regulations governing commercial aircraft. Such fees will cover the entry, clearance, and other services provided to commercial aircraft entering and exiting the United States. Further recommends that the Customs Service, the Secretary of the Treasury, and the President support legislation that will impose new user fees or increase existing user fees to cover drawback entries, warehouse entries, warehouse withdrawals, in-bond fees, foreign trade zone fees, brokers licenses, commercial processing for trucks and trains, clearance of yachts and pleasure boats, and general aviation processing.

Three-Year Savings/Revenue Enhancements: $363.5 million

Implementation Authority: Congress

USER-17 (pp. 183-184, 186-187, 189-190)

Federal Departments and Agencies Should Recover the Cost of Providing Information Under the Freedom of Information Act (FOIA) - FOIA is a government-wide statute allowing the public to request information from the government. Individuals can request information at little cost from Federal and Congressional Agencies as a matter of public interest. Frequently, when a request is made that is considered of general public interest, no charge is made. When there is a charge, it covers only the cost of the search time and copying. The charge does not include the cost of reviewing the document in order to remove proprietary, Privacy Act, or classified information. The major time devoted to FOIA requests falls in the latter category. Service companies (defined as private sector companies which are in the business of filing FOIA requests on behalf of an individual or company for a fee) have existed since the passage of the Act. These companies provide their service primarily to business and industrial clients at fees that frequently are three to four times the cost charged by government agencies. Of the 33,000 requests received in 1981 by the Food and Drug Administration (FDA), for example, it is estimated that approximately 80% to 85% came from the pharmaceutical industry requesting information on competitors, with approximately 47% requested through service companies. The cost to FDA of providing this service in 1981 was $4.5 million, expending 130.8 staff-years to process and respond to those requests. The practice of requesting FOIA material has become part of regular market research, and industry is taking advantage of government resources to obtain information that is of economic benefit to them. Task Force findings indicate that an average of 92% of the cost of the FOIA activity is subsidized by the taxpayer. In the Senate, legislation that would provide for a uniform schedule of fees for all agencies has been intorduced entitled "The Freedom of Information Reform Act," Senate Bill S. 774. Recommends that the President support a change in the existing FOIA legislation as already outlined in S. 774, and that the President direct the Executive departments and agencies to issue new regulations that would recover an hourly fee rate more commensurate with the level of effort and expertise currently used to perform the service.

Three-Year Savings/Revenue Enhancements: $231.7 million

Implementation Authority: Congress

Under Recreation, for which PPSS recommendations would generate $527.5 million in additional revenues, $372 million could be collected over three years by allowing the Forest Service to collect entrance fees, charge for annual permits, and increase existing fees for camping; base ski resort land use fees on the value of the land, not ski resort sales; and charge summer recreation homeowners fees based on current land values. In addition, the Army Corps of Engineers could collect $57 million over three years by charging fees at Corps recreation areas, and the National Park Service (NPS) could collect $99 million over three years if the Congressional freeze on entrance fees at NPS recreation facilities were removed.

(Issue Summaries Follow)

USFR-3 (pp. 46-47, 49-50, 54, 57-60)

The Forest Service (FS) of the Department of Agriculture Should Recover a Larger Share of the Cost of Providing Recreation Services - The National Forest System comprises 155 national forests, 19 national grasslands, and 18 land utilization projects located in 44 states, Puerto Rico, and the Virgin Islands. The FS conducts two types of recreation programs in which user fees are charged: recreation use and special land-use agreements. The Land and Water Conservation Fund Act (LWCFA) authorizes a fee system for recreation areas. The LWCFA applies to camping areas and National Forest parks, and allows for recreation use and permit fees and a small amount of additional fees for activities such as swimming and hiking. Campgrounds are designated as recreation fee sites only when they contain tent or trailer space, drinking water, access roads, toilet facilities, personal fee collection, and other criteria required by the LWCFA. There are over 4,500 campgrounds in the National Forest System and over 1,800 are designated as user fee sites. Special land-use agreements are permits that are extended by the FS as contracts for leasing ski resort lands, summer recreation home land, organizational sites, and marinas. Regarding recreation summer homes, approximately 16,000 20 to 30-year (and a few annual) permits have been issued for use of FS land. The general public is not provided access to the land once a home has been built. Approximately 4,000 acres are involved in this program, with average lots of one-quart of an acre. Fees charged for recreation summer homes are based on 5% of the appraised value of the land. Land appraisals are conducted by the FS every 5 years, at which time the user fees are reviewed and adjusted where appropriate. Ski resort land is currently leased by the FS at 165 locations, involving many of the major ski resorts, such as Vail, Colorado. Annual lease fees for ski resort properties are based on a graduated rate formula. The higher the ratio of ski resort sales to gross fixed assets, the higher the fee. Although the FS has the highest number of total visitor hours of all Federal recreation agencies, and 14.5 times the number of fee units of the National Park Service (NPS), its receipts amount to only 43% of the total NPS receipts. The median return for ski resorts on FS land is 20% higher than for resorts not on FS land. After-tax profit margins for resorts on FS land are almost double those not on

USER-3 continued

this land: 7% versus 4%. The FS combined recreation appropriations from 1978 through 1982 equaled $567.5 million. The amount of recreation fees for the same period ($38.6 million) and special land-use fees ($54.8 million) totaled $93.4 million. The total of these receipts is only 16% of total recreation appropriations and 18% of recreation operation and maintenance costs alone. The general taxpayer has absorbed between 82% and 84% of the costs of these programs or $414 to $475 million in this time period. Recommends that the LWCFA be amended to allow the FS to collect entrance fees, charge for annual permits for entrance, and increase existing fee areas for camping and other special uses; ski resort special land-use agreement fees should be based on the value of the land, not on ski resort sales, and summer recreation homeowners on FS land should be charged fees more in line with the current value of the land if it were sold.

Three-Year Savings/Revenue Enhancements: $371.6 million

Implementation Authority: Congress/Administration

USER-2 (pp. 34-36, 39-40, 43-45)

The Corps Of Engineers (Corps) Should Recover More of Its Cost of Providing Recreation Services at Its Water Resource Projects - The Corps administers one of the two largest systems for outdoor recreation (in terms of total visitation) of the seven Federal agencies involved in recreation management. In 1982, the Corps managed 4.2 million acres of land and water in the United States. Within the 453 water projects, over 4,500 recreation areas exist, approximately 2,400 of which are managed by the Corps. Approximately 219,000,000 recreation days of use occurred within Corps-managed recreation areas in 1982. For FY 1982, the Corps collected approximately $8 million in recreation user fees. The Corps is prohibited from charging entrance or admission fees to any of its water resource recreation areas. The Corps is also required to provide one free "primitive" campground to be available for use at every campsite where fees are collected by the Corps. The Corps, therefore, is only allowed to collect camping fees. Of the seven Federal agencies involved in recreation management, the Corps has the second largest number of visitors, measured in visitor hours, at its nonfee areas and fee areas. In addition, the Corps has consistently maintained one of the highest numbers of fee areas, second only to the Forest Service (FS), yet collects the lowest amount of fees of the three largest agencies (National Park Service, FS, and the Corps). The Corps has a policy of hiring outside contractors for collecting fee receipts and recording fee payments but has no active program for leasing out recreation areas to private sector entities. The Corps recreation office does not know how much money is invested in purchased land, capital expenditures, and improvements in its recreation areas since it is not required to collect such information separately. The fee restrictions on the Corps have resulted in the users of its recreation facilities paying for only 8% of the costs of providing the services. There is no current incentive for maximizing receipts from each recreation area when only 4% of the costs of providing all of the recreation areas is allocated back by Congress to the Corps, and most of those allocated funds are not returned to the collecting areas. The current Corps arrangement for accounting for special recreation use fee funds is an inaccurate and misleading method of informing the public of the actual costs of the provision of Corps recreational facilities. Recommends that the Land and Water Conservation Fund Act (LWCFA) of 1965 should be amended to allow entrance fees to be charged at Corps recreation areas, to eliminate the requirement for free primitive camping areas where camping is permitted and fees are collected, and to allow day-use fees at Corps recreation areas. Also recommends that the Omnibus Budget Reconciliation Act of 1981 be amended to repeal the limit of $6 million for FY 1982 through 1984 on annual appropriations to the Corps for special recreation user fee programs. Including the additional fees recommended by the Task Force, annual receipts would represent less than 40% of total current recreation operation and maintenance costs.

Three-Year Savings/Revenue Enhancements: $56.6 million

Implementation Authority: Congress

USER-4 (pp. 62-63, 67-71)

The National Park Service Should Recover More of Its Costs of Providing Recreation Services - The acreage of national parks managed by the NPS is vast: 74 million acres in the United States in 1981. The NPS provides recreational facilities at over 300 parks, of which there are approximately 140 fee units. Entrance fees are charged at 64 of the parks, and at most of the parks user fees and special permit fees are collected. In 1982, the total appropriations for the NPS were $602.2 million, of which approximately $473.7 million was for the operation of the NPS park management activities. Over $176 million was for the operation of parks charging fees. The Land and Water Conservation Fund Act (LWCFA), established the concept of the Golden Eagle passports, or annual admission fees for the NPS recreation areas. The fee for the passport has not changed since 1970, when Congress established the ceiling. Since 1979, entrance fees have been "frozen" or stablized at their January 1, 1979, level, and the institution of fees at sites in addition to those already collecting such fees in 1979 was prohibited. Entrance fees at the 64 parks collecting such fees range from $1 to $3 per vehicle, including all passengers, and from $0.50 to $1.50 per person at walk-in parks. The GAO has identified a backlog of approximately $1.6 billion in needed repairs to basic facilities at national parks. Because of the appropriations process and the restrictions on the use of fee receipts by the Interior Department, this backlog remains. Operations and maintenance costs per visitor at national parks rose between 1971 and 1981 by 149%, while entrance fee receipts per visitor declined 30%. The 1981 NPS entrance fee receipts represented only 2% of total NPS operation and maintenance costs, down 5 percentage points from 1971. Because there is no separate accounting code for collection costs, most of the area offices of the NPS estimate the statistics. The expenses for operating ten regional offfices of the NPS and of the national office are not included in any cost categories for recreation management. The NPS could not provide statistics on costs of construction of recreation facilities or other capital expenditures. Over the past five years the general taxpayer paid almost 90% of the expenses of maintaining the recreation fee areas alone. While park user fees are not expected to recover 100% of the cost of operating the NPS, the receipts

USER-4 continued

should at least recover more than 10% of the cost of the operating and maintaining the fee areas alone. An additional $30 million in fees as recommended by the Task Force, will bring that percentage to only 27%. Recommends that the freeze on entrance fees at NPS recreation facilities be removed, the LWCFA be amended to remove the $10 limit on the price of a Golden Eagle Passport, and the legislation submitted by NPS to the House of Representatives, entitled "National Park System Fee Dedication and Park Improvement Act of 1983," be amended to state that where collections costs have exceeded receipts at individual units over a period of not less than three years, but not more than five years, on average, such collection of receipts should be temporarily suspended.

Three-Year Savings/Revenue Enhancements: $99.3 million

Implementation Authority: Congress

Recommended user charges in the areas of Regulation and Licensing and Inspection and Grading total $246 million over three years. More than half of the total savings in these two areas result from the recommended reintroduction of application and regulatory fees by the Federal Communications Commission ($132 million over three years). Similarly, $77 million in user charges would be generated over three years by adding and increasing fees assessed to identifiable beneficiaries by the Federal Energy Regulatory Commission. Other user fees can be imposed to recover costs for: Agriculture Marketing Service cotton grading and warehouse licensing, and for cotton and tobacco market news ($30 million over three years); inspection and weighing services of the Federal Grain Inspection Service ($6 million over three years); and Housing and Urban Development mobile home inspections ($1 million over three years).

(Issue Summaries Follow)

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USER-14 (pp. 145-151)

The Federal Communications Commission (FCC) Should Collect Application Fees and User Charges For the Service Provided - FCC regulates interstate and foreign communications by radio, television, wire and cable. It is responsible for the orderly development and operation of broadcast services and the provision of rapid, efficient nationwide and worldwide telephone and telegraph services at reasonable rates. FCC is not currently collecting user fees. The Supreme Court invalidated the old FCC fee schedule and the Court of Appeals set forth the criteria by which the Commission was to establish a new fee schedule. In a companion case, involving the Nuclear Regulatory Commission (NRC), the Court invalidated similar user fees. NRC followed the court's directions and established a new fee schedule based upon cost allocations. Those fees were later upheld when challenged by the users, and subsequent adjustments and increases to the fee schedules have continued. Revenues of approximately $16 million were collected by NRC in FY 1982. FCC made one attempt to issue a new fee schedule which was not acceptable to the Court. Rather than continuing to develop different fee schedules and to litigate, FCC decided that it could not determine the cost allocated to the services provided to identifiable beneficiaries versus services that were for the general public. FCC did not have a cost accounting system that would give it sufficient information to determine the fee level. On December 20, 1976, the Agency issued a memorandum noting that the FCC did not have, and had no need for a cost accounting system. FCC was not prepared to continue litigation, and accordingly announced that it was refunding fees collected and would not attempt to administratively set a new fee schedule. Recently legislative proposal was submitted to Congress to establish the fees, therefore bypassing the user fee statutory requirements. Recommends that FCC implement a management information/cost accounting system that will allocate costs to the various functions and activities in the Agency, that the proposed user fee schedule presented to Congress for approval be implemented as a means for reintroducing user fees for FCC services, and that FCC continue to monitor through its new management information systems the cost of providing the various services for which the fees have been collected.

Three-Year Savings/Revenue Enhancements: $132.4 million

Implementation Authority: Congress

USER-15 (pp. 154, 156, 158, 161, 163-166)

The Federal Energy Regulatory Commission (FERC) Should Recover the Cost of Regulatory Services Provided to Identifiable Users - FERC is an agency within the Department of Energy charged with regulating certain interstate aspects of the natural gas, hydroelectric, oil pipeline, and electric industries. FERC has authority to collect user fees for a number of special services provided to identifiable beneficiaries. FERC reported that receipts for FY 1981 totaled $23.8 million. The total receipts for FY 1982 were $49.5 million, although $15 million were assessed in FY 1981 but not received by the Agency until FY 1982. FERC is not charging fees for all services identified as benefiting identifiable users and has proposed to add new fees for existing services, as well as to increase existing fees. Those proposals and the level of fees have been determined following the provisions of existing statutes, and management information available in the Agency. Recommends that FERC implement the new user fee structure proposed; that the Administration and FERC fully support the proposal for expanded authority from Congress to collect user fees (this authority should include earmarking user fee receipts to relate them to the cost of providing the services for which the fee is charged); and that FERC's management information and accounting system be adjusted to give sufficient information to management that would insure an evaluation of the business aspects of the program. Fees should be adjusted on a regular basis to reflect actual costs.

Three-Year Savings/Revenue Enhancements: $76.8 million

Implementation Authority: Congress

USER-11 (pp. 129-135)

The Department of Agriculture's Agricultural Marketing Service (AMS) Should Recover More of Its Costs By Applying User Fees to Additional Services Not Covered in the Existing Fee Schedules - AMS administers standardization, grading, inspection, market news, marketing orders, and regulatory and related programs for which user charges are collected from identifiable beneficiaries. There are several areas where fees have not been instituted. These include marketing news for cotton and tobacco, applications for plant variety protection, cotton grading and cotton warehouse inspection, and the services provided under the market agreement and order program. AMS has proposed legislation to establish fees for the market news, plant variety, market agreement and order programs, and will also implement under existing authority user fees for the cotton warehouse inspection and cotton grading services. Recommends that AMS institute user fees for cotton grading and cotton warehouse licensing that will fully reimburse on a continuing basis the obligations incurred in performing the activities, and that the legislation introduced by AMS to recover user fees for cotton and tobacco market news, plant variety protection certificates, and market agreement and order program activities be supported by the Administration. Congress should enact the authority to allow AMS to collect user fees to cover these special services.

Three-Year Savings/Revenue Enhancements: $29.4 million

Implementation Authority: Congress/Administration

USER-12 (pp. 136-138)

The Department of Agriculture's Federal Grain Inspection Service (FGIS) Should Increase Its Fee to Cover the Costs of Providing Inspection and Weighing Services - The U.S. Grain Standards Act requires, with some exceptions, the official inspection of all U.S export grain as it is loaded on board the vessel that will carry it overseas. For domestic grain, marketed at inland locations, FGIS designates private firms and state agencies to provide official inspection services on request. The Omnibus Budget Reconciliation Act of 1981 requires that fees for inspection and weighing services cover the estimated FGIS costs incident to providing such services, including related administration and supervision costs. Through mid-1982, the revenue generated from FGIS grain inspections was $21.6 million. Costs of providing the service were $25.5 million. The FGIS should raise its fees in order to make up for the revenue shortfall. Recommends that FGIS adjust its fees annually to recover 100% of costs.

Three-Year Savings/Revenue Enhancements: $6.1 million

Implementation Authority: Administration

USER-13 (pp. 139-141)

The Director of the Office of Manufactured Housing and Construction Standards of the Department of Housing and Urban Development Should Increase Inspection Fees to Cover Administrative Costs Or Reallocate Existing Fees to Cover These Costs - The government requires an inspection of the design, construction, and performance of manufactured (mobile) homes. The regulations permit the Assistant Secretary of the Department of Housing and Urban Development (HUD) to collect a fee for each mobile home produced, and deposit the fee to a special fund to finance inspections and enforcement. An average of 254,000 mobile homes have been manufactured annually since 1976. In August 1975, the fee of $19 per unit was established. Of that fee, $10 was paid to the HUD monitoring contractor and $9 was to be paid to the states in proportion to mobile homes located in those states (to cover the cost of processing consumer complaints). Surpluses in the fund developed because of states that did not participate. The fee was therefore reduced to $15 from April 1, 1981, to June 30, 1982 ($12 payable to the states). The inspection fees generated are not currently used to offset either HUD administration, inspection, or complaint handling costs. The funds are used to pay contractors or states to perform certain services. Only 34 states are utilizing the system, so there is a surplus in the inspection fee fund. HUD is currently handling approximately 10% of complaints and all appeals, as well as generally administering the inspection and enforcement program. State governments are reimbursed for their administrative activities under this program, but the Federal government is not. The Federal taxpayer is paying those costs. With a history of surpluses in prior years, the user fee does not appear to be a burden to the beneficiaries. An allocation of funds could be made to reimburse HUD for its costs that are related to inspection and enforcement. Recommends that the Secretary of HUD request a new agreement with OMB that would authorize the use of user charge receipts to offset the adminstrative costs of inspection and enforcement of the Manufactured Housing Program.

Three-Year Savings/Revenue Enhancements: $1.3 million

Implementation Authority: Administration

In addition to the areas ard issues discussed above, other PPSS Task Forces identified user charge opportunities with estimated three-year revenue enhancements of $10.8 billion.

About half of the revenues result from recommendations for increased loan origination fees. For example, the Financial Asset Management Task Force recommended that all Federal lending agencies charge for loan origination, servicing and delinquency for direct loans. Little standardization was found. Potential three-year revenues were estimated at $2.9 billion. Also, guaranteed student loan fees could be increased to better recover administration costs. Three-year potential recoverable revenues are approximately $1.6 billion.

(Issue Summaries Follow)

ASSET 11

Charge For Loan Origination, Servicing and Delinquency

Three-Year Savings/Revenue Enhancements - $2.887 billion

Percent of $23.503 Billion Total - 12.3%

Implementation Authority - Agency/Administration

Recommendations Summary

There is little standardization across agencies with regard to whether loan fees are charged and with regard to the amounts charged. HUD charges $1-$5 per $1,000 of mortgage principal; the student loan program charges 5% of principal as points for origination; and most USDA programs have no application or origination fee. Furthermore, Treasury requires that all delinquent loan payments be assessed an additional interest fee equal to the cost of Treasury borrowings. Less than 1% of delinquent loans are charged this fee, and no penalty fees for late payments are prescribed.

1. Treasury's requirements for charging interest on all late loan payments should be enforced.

2. A late penalty charge should be established for all government loan payments.

3. The delinquency term should be decreased from 30 days to 15 days.

4. A non-refundable application or origination fee should be assessed for all loans, based on full allocation of all operating costs involved to initiate and service the loan.

Asset 19

Increase Guaranteed Student Loan (GSL) Origination Fee

Three-Year Savings/Revenue Enhancements - $1.572 billion

Percent of $23.503 Billion Total - 6.7%

Implementation Authority - Congressional

Recommendations Summary

To reduce the subsidy necessary to run the GSL program, the origination fee for GSL loans should be increased to 10% from 5% currently. Raising the fee, which is payable when the loan is made, increases Federal cash flow and encourages private sector lenders to assume the entire risk for loans in order to retain the fee.

Another general area in which user charges were recommended was publications and services. Three-year increased revenues were estimated at $479 million.

Over half of the increased revenues in this area could be achieved by giving agencies the authority to set user fees for their publications, recovering Executive agency preparation costs ($265 million in added revenues over three years).

(Issue Summary Follows)

PAV 2

Publication User Fees

Three-Year Savings/Revenue Enhancements - $265 million

Percent of $1.728 Billion Total - 15.3%

Implementation Authority - Congressional

Recommendations Summary

Agencies pay most of their publication costs from program funds, with little opportunity for cost recovery. Congress often requires Executive agencies to disseminate information about their programs, regulations and research. Much of this information is distributed free of charge, with agencies paying the entire cost of publication and distribution out of appropriated funds.

The remaining publications are sold, primarily through the Government Printing Office (GPO). In these cases, the issuing agency still pays the costs of research, writing, editing, design, graphics and the initial press run out of appropriated funds. The GPO then pays to print the desired number of copies for sale to the public, and retains the proceeds of sale. None of the preparation costs of the issuing agency are recovered. The total unrecovered cost of Executive agency publication programs is estimated at $1.3 billion for FY 1982.

1. Establish organization structures appropriate to effective publications management.

2. The Office of Personnel Management (OPM) should develop revised job descriptions for professional publications, marketing and sales functions.

3. The Office of Management and Budget (OMB), in collaboration with the General Accounting Office, should develop model accounting procedures to track and report now-hidden publishing costs.

4. Agencies should have the authority to set user fees for their publications. ($265 million based on 6% of unrecovered publication costs)

Other recommendations included:

1. Raise Federal lending rates to market rates to encourage borrowers to seek private sector funds and to preclude unintended subsidies of borrowers. Increased interest of $2.4 billion over three years is projected.

2. Increase Railroad Retirement Board collections for the supplemental retirement plan and the sickness and unemployment plan. Three-year additional revenues of $2.0 billion are needed to prevent funding deficits.

3. Collect increased user fees for outer continental shelf minerals exploration and development. Three-year revenues of $410 million are projected.

(Issue Summaries Follow)

Asset 15

Raise Loan Interest Rates to Market Levels

Three-Year Savings/Revenue Enhancements - $2.371 billion

Percent of $23.503 Billion Total - 10.1%

Implementation Authority - Congressional

Recommendations Summary

1. In times of rising interest rates, fixed-rate government lending programs in effect increase or create a subsidy for borrowers.

2. Congress should provide that government lending rates be tied to the Treasury's cost of borrowing. If there is an intended subsidy, the point spread between the subsidy level and the free-market level should be specifically stated.

BANK 11

Increase Taxes or Reduce Benefits to Maintain Railroad Retirement Solvency

Three-Year Savings/Revenue Enhancements - $1.442 billion

Percent of $9.399 Billion Total - 15.3%

Implementation Authority - Congressional

Recommendations Survey

The Railroad Retirement System consists primarily of two parts: retirement benefits which can be equated to Social Security benefits (Tier 1), and a multi-employer private pension system (Tier 2). The financial problems facing railroad retirement, a pay-as-you-go system, not subject to ERISA, are profound. There are more than two retirees per active worker. For budget year 1982-83, benefits are expected to exceed income by $388 million. The 15th actuarial valuation, dated December 31, 1980, places unfunded liabilities at about $30 billion.

Pension benefits to railroad retirees are among the most generous in the nation. They include full retirement at age 60 to 30 year employees and payments of Tier 2 benefits to non-working spouses; virtually all benefits are tax free.

The after-tax replacement of final salaries for railroad workers and other private sector employees exceeds private sector replacement by a factor of approximately 1.3X for married retirees and 1.2X for single retirees.

1. A 4 percent increase in Tier 2 taxes, equivalent reduction in benefits, or combination thereof, should be implemented as soon as practical. This is necessary to keep the program self-sustaining and to avoid requests for financial assistance from Congress. ($1.442 billion)

2. Future increases in railroad retirement benefits should be subject to ERISA standards.

BANK-13 (pp. 93-95, 97-98)

Increase Tax Rate and Institute Experience Ratings for Railroad Unemployment and Sickness Insurance (RUSI) Premiums - The system is similar to state unemployment insurance programs except it is a nationwide program dedicated to railroad industry employees and contains a sickness benefit provision. The system is funded by a flat contribution based on wages. For 1982 revenues are estimated to be $170 million and benefits $350 million; at Aug. 30, 1982, the system was in debt by $286 million to the Railroad Retirement Account, which funds the deficits. Recommend increasing effective tax rate (by increasing taxable wage from $4,800 to $9,500) to adequately fund current claims and liquidate the existing deficit over a minimum five-year period. Also recommend developing an experience rating system to provide for more equitable application within the industry and to provide incentives to reduce the overall system cost.

Three-Year Savings/Revenue Enhancements: $546.1 million

Implementation Authority: Congress

LAND 1

Offshore Minerals Management

Three-Year Savings/Revenue Enhancements - $410.4 million

Percent of $627 Million Total - 65.5%

Implementation Authority - Agency/Administration

Recommendations Summary

The Federal government owns the entire one billion acres of the Outer Continental Shelf (OCS). OCS revenues are derived primarily from the exploration and development of oil and gas.

Unpredictable and disordered changes in final OCS long-range plans cause repeated one-time losses of revenue to the government. The most recent Congressional interference in the implementation of the OCS Five-Year Plan eliminated from the schedule of lease sales leases estimated to be worth $5.75 billion. Even if this results in only a single year delay, the value lost would be $460 million.

1. The Minerals Management Service (MMS) responsible for OCS functions, should continue to analyze and, where appropriate, use a variety of bidding systems to ensure maximum total long-term Federal revenues. Continue to evaluate alternative royalty systems to garner higher Federal revenues over the long run, even though short-term revenues may suffer.

2. The MMS should utilize seven-year primary terms for leases in harsh environments. Current lease terms are for ten years.

3. The MMS should be an off-budget, independently funded entity within Interior, directly supported by OCS revenues, and Congressionally reviewed. Approved final OCS plans should not be subjected to routine annual Congressional consideration. Although each final five-year plan has been Congressionally reviewed, each plan must be updated annually and resubmitted to Congress for another review. This process, in effect, transforms each final five-year plan into a series of five one-year plans.

I appreciate the time and attention this Committee has given to the review of PPSS recommendations. The interest shown by Congress gives us hope that the opportunities offered by PPSS will be fully explored and implemented.

Although PPSS is a commission established by Presidential Executive Order, 73 percent of its recommendations require the approval of Congress before they can be implemented. Congressional support for PPSS cost control efforts is, therefore, critical if the full savings impact is to be realized.

Over the course of the past several months numerous hearings and briefings have been held at which PPSS representatives have discussed their findings and recommendations and responded to questions from members of Congress and their staffs. I and my associates have provided testimony to both the Senate and House Budget Committees, the Senate Finance Committee, the Senate Agriculture Committee, and other committees as well. These sessions have in nearly all cases been marked by a willingness to give a fair hearing to the recommendations and to consider how Congress might be involved in their implementation. Coming across clearly was a deep-seated concern with the burgeoning costs of Government and a consequent openness to initiatives that give promise of moderating the problem.

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Before concluding I would like to mention the system developed by the Executive Office of the President to review and implement PPSS recommendations. Each agency will evaluate each issue and recommendation, indicating whether the item can be implemented as recommended or whether it, in the judgement of the department, requires modification or has been identified for further study before implementation.

White House review groups have been established to consider department/agency responses. Cabinet members and agency heads as well as PPSS representatives have been invited to participate in all review groups considering matters affecting their departments/agencies.

It is the responsibility of each agency evaluating individual issues and recommendations to present an implementation plan and schedule to the White House Office of Cabinet Affairs, so that progress can be monitored.

Agencies already have accepted and are implementing many of the PPSS recommendations. For example,

- A series of PPSS cash management improvement recommendations are being carried out Government-wide, with estimated savings of $4.7 billion by FY 1985.

- An aggressive Government-wide debt collection program which has been under way for nearly two years was reinforced by PPSS recommendations. Savings targets were established for FY 1983 through FY 1988, with projected total collections of over $20 billion.

- The Administration has initiated action to reduce the number of employees in grades GS/GM 11-15 by 40,000, as recommended by PPSS. Total estimated savings through FY 1988 are $1.4 billion

- A reduction of over 1,400 employees in the Department of Health and Human Services, as recommended by PPSS, is being made, with an estimated $172 million savings over three years.

I and my associates are ready to provide whatever assistance we can to the Executive and Legislative branches to further the understanding, acceptance and implementation of PPSS recommendations.

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J. PETER GRACE
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

March 16, 1984

The Honorable Robert T. Stafford
Chairman, Senate Committee on
Environment and Public Works
Hart Senate Office Building, Room 133
Washington, D.C. 20510

Dear Mr. Chairman:

We very much appreciated the opportunity to appear before the Committee on Environment and Public Works on February 22, 1984. We found the discussion informative and encouraging. We were particularly pleased with the genuine interest displayed by members of the Committee with respect to the implementation of recommendations of the President's Private Sector Survey on Cost Control (PPSS).

I appreciate your continuing interest, Mr. Chairman, and am glad to respond to the questions you sent to me and to further amplify the work and recommendations of PPSS. Specific responses to each of your five questions follow.

Your first question:

> "The goal of your report is full cost recovery. As a businessman, do you believe that industry and the American economy can absorb cost-recovery user charges on our inland waterways and our harbors without economic disruption? Wouldn't it hurt American exports?"

PPSS considered the impact that user charges would have on specific segments of the American economy and on the American economy as a whole, as well as the impact user fees would have on exports.

In 1981, 1.8 billion tons of merchandise moved through deep draft harbors and channels of the U.S., as shown below:

Deep Draft Harbors And Channels, Tonnage Moved
(Millions Of Tons)

		(1) Tons	(2) As Percent Of Total
(1)	Import	643.2	34.9%
(2)	Export	302.9	16.5
(3)	Coast-wise	610.3	33.2
(4)	Lake-wise	283.3	15.4
(5)	Total	1,839.7	100.0%

Only 16.5% of the merchandise using deep draft harbors and channels was meant for export. This is less than one-half the effect on imports which accounted for 34.9% of usage. Further, the Congressional Budget Office (CBO) has estimated that "a full-cost recovery fee... would raise the cost of exported goods slightly -- for example, less than one percent in the cost of coal delivered to Europe."

Further, we recommended that user fees be phased-in over a four-year period to recover operation and maintenance (O&M) costs for deep draft ports and channels, and over a five-year period to recover O&M costs for inland waterways. Regarding construction costs for both deep draft ports and channels, and inland waterways, we recommended amortizing expenditures over 50 years. As you can see, the impact of our recommended user fees would be gradual rather than sudden, minimizing adverse effects.

In general, we support the position that more efficient use of transportation resources will be achieved if the rates for barge transportation reflect the economic costs of that method. When rates for one method are more heavily subsidized by taxpayers than rates for other methods, traffic is diverted from the more costly to the less costly freight carriers. We question whether it is fair to subsidize one segment of private industry in this manner.

We compared the costs of shipping fertilizer and coal (two products with which W. R. Grace & Co. is involved) by rail and by barge. The comparison is shown below:

Shipping Costs, Rail Versus Barge
(¢ Per Ton-Mile)

		(1) Rail	(2) Barge	(3) Rail As Multiple Of Barge
(1)	Fertilizer	3.75¢	0.35¢	10.7X
(2)	Coal	4.0	1.4	2.9

Rail transportation costs for the commodities we analyzed (and for the specific routes we analyzed) are 10.7 times and 2.9 times as expensive as barge costs for fertilizer and coal, respectively, reflecting waterway subsidies.

I would also emphasize that the Congressional Budget Office (CBO) has noted that current inland waterways user fees fall far short of financing Federal expenditures for inland waterways. The CBO has estimated that over the 1985-1989 period, the Corps of Engineers will spend approximately $3.4 billion to build, operate and maintain inland waterway facilities, over which time about $350 million will be recovered through user fees -- i.e., a recovery rate of 10.3% despite the fact that 75%-80% of expenditures, or $2.5-$2.7 billion, are for operations and maintenance. Regarding deep draft navigation, no user fees are currently collected to offset the Corps' activities.

Your second question:

> "American agriculture seems to be in real trouble. Wouldn't waterway user charges on agricultural shipments, as well as various other Grace Commission recommendations affecting agricultural subsidies, severely damage the American farm economy? How can that be prevented?"

PPSS specifically looked at the effect increased waterway user fees would have on agriculture. The Department of Transportation's (DOT) February 1982 report to Congress concluded that:

> "Compensatory user charges would not have major economic and financial impacts on water transportation and the other groups involved over the next two decades. The more immediate effect would be felt by the grain and barge interests, but aggregate impacts were found to be small. The growth in inland waterway traffic would continue under such compensatory charges."

Further, according to the Congressional Budget Office (CBO), full cost recovery for operation and maintenance expenses for ports and harbors (88.9% of total port and harbor costs) would increase shipping costs by approximately 1 percent for containerized cargo, 4 percent for grain, and 9 percent for coal. Considering the substantial advantage barge transportation has over rail transportation, as pointed out previously in answer to your first question, increasing barge costs 1%-10% would still leave rail transportation rates higher than barge rates.

Again, I would emphasize that the cost burden of waterway facilities should be shifted from the general taxpayer to the beneficiaries of waterway subsidies -- the barge industry, shippers, and, ultimately, consumers.

Regarding other PPSS recommendations affecting agricultural subsidies, the major PPSS recommendation is from the Agriculture Task Force report, Issue 21, "Reduce Anticipated Crop Support Payments." We specifically stated in that issue that there was insufficient time to perform an in-depth analysis and that the issue needs to be further studied by Congress and the Administration to determine whether the potential savings and the related impact on the overall economy justify changes in crop support programs. Our concern in this area stems from our conclusion that CBO and USDA projections of price support program outlays appear to be understated. PPSS estimated that total outlays for FY1983 and FY1984 will be approximately $19.0 billion, some $6.5 billion more than USDA estimates and $11.7 billion more than CBO estimates.

PPSS is also concerned that the current programs have failed to meet their fundamental objective -- stabilizing farm supply and demand at price levels that meet minimum farm income maintenance objectives. Rather, implementation of these laws has:

-- induced record production and stocks at a time of stagnant domestic and world demand;

-- weakened the U.S. farmer's competitive position in world markets;

-- diminished the economic viability of the small, family-owned farm; and

-- committed the Federal Government to future crop support outlays well beyond those projected.

Thus, fundamental changes are needed for the long term.

It was not our purpose to propose policy changes, but in terms of attaining program objectives more efficiently it was clear that support programs needed to be redirected.

Other issues which PPSS analyzed and which are likely to affect agriculture include the following in our User Charges Task Force report, with three-year savings identified.

Issue 6, Increase Bureau of Land Management grazing fees. ($76.1 million).

Issue 7, Increase Forest Service grazing fees. ($49.3 million).

Issue 9, Charge a $25 fee for the private sector use of soil surveys. ($27.4 million).

Issue 11, Charge fees for certain Agricultural Marketing Service activities. ($29.4 million).

Issue 12, Recover full costs of the Federal Grain Inspection Service. ($6.1 million).

These five issues would recover $188.3 million in additional user fees over three years, or approximately $63 million annually, hardly a major disruption of the agricultural sector of our economy. Further, $125.4 million, or 66.6% would be recovered from increased grazing fees, recommendations which would establish a system to approximate market value for grazing rights, which was the original intent of legislation in this area.

Our fundamental principle regarding user fees is simple. If there is a specific group that receives a benefit from a Government service, activity or product, that does not benefit the

public as a whole, that group should pay the market price for the benefit provided. If there is a need to subsidize a product or industry because of a legitimate concern about its welfare, it is better to do so in a direct fashion, rather than to continue indirect subsidies which benefit others who require no subsidy.

Your third question:

> "What do you see as the major obstacle to the development of a coherent, government-wide user charge program?"

The two major obstacles to a coherent, government-wide user charge program are Congressional action and inaction and the lack of definitive and consistent information in the Government.

User fees require enabling legislation. Until Congress establishes user fee statutes, agencies cannot recover costs. Unfortunately, there has been much lobbying by affected parties against specific user fees and Congress has not done enough to ensure that all costs which can be recovered are charged to the beneficiaries of Government services.

For example, the Corps of Engineers (COE) is prohibited by legislation from charging entrance or admission fees to any of its water recreation areas and from charging any day-use fees at its recreation areas. The Corps, therefore, is allowed to collect only camping fees. In 1982, fee receipts of $8.0 million were 8.7% of recreation operating and maintenance (O&M) expenses of $91.9 million; from 1975-1982, fee receipts of $35.2 million were 6.1% of total O&M expenses of $576.8 million. Additional revenues of $56.6 million over three years are possible if this restrictive legislation is amended or repealed.

In addition to Congressional inaction, or action taken to limit cost recoveries, a high level of uncertainty and confusion exists in the Executive Branch about what fees, charges, and prices can be collected for Government products and services because of court decisions and unclear administrative policy. Such uncertainty remains even though there are authorizing statutes, an implementing OMB circular, and more than $40 billion is collected annually in user charges.

Some agencies sell Government property at market value, while others sell the same or similar products for less. For example, the Department of Defense (DOD) and the Bureau of Indian Affairs sell grazing and forage by an auction/bid system. By contrast, the Bureau of Land Management and the Forest Service are required by statute to collect grazing fees under a complex formula related to the current price of beef.

Even those programs specifically authorized by statute are inconsistent in cost recovery. For example, the Interstate and Defense Highway System recovers through a schedule of excise taxes the full cost of the Interstate Highway System. By comparison, the excise tax scheduled for the inland waterways and the airport and airways systems recovers only about 5 percent and 85 percent of the cost of those systems, respectively.

The user charge system is complicated and leads to confusion and misunderstandings. Accounting systems, which number 332 across government, are unable to meet day-to-day program management needs. These shortcomings include the inability to give credit or recognition for the collection of receipts, lack of clarity as to appropriate accounting methods, difficulty in determining the amount of funds available for program operation, difficulty in determining accountability for program performance, and inability to allocate between user charge business-type activities and general public-purpose programs.

As a result, Federal accounting systems are deficient for management control and for calculating costs. For example, offsetting receipts against expenditures is a device used to reduce the apparent size of Government expenditures. The distribution or allocation of receipts is used as an accounting mechanism rather than a management tool. For example, until 1982, patent and trademark fees were considered general budget receipts and were not earmarked for appropriations to the Patent and Trademark Office (PTO). When authority was granted to PTO to increase its fees and to deposit the receipts in revolving funds, the opportunity was used to reclassify the receipts as offsetting, reducing the size of the PTO budget as reflected in the FY1984 Federal Budget while expenditures for PTO actually increased.

As another example, Circular A-25 of the Office of Management and Budget was issued for the purpose of developing an equitable and uniform system to charge for certain Government services and property. Circular A-25 states that there is a need for user charges to be determined "by the application of sound business management principles, and so far as practicable and feasible in accordance with comparable commercial practices." However, Circular A-25 specifically prohibits the establishment of any accounting procedures and/or practices for tracking receipts and expenditures or other resource management information, apart from existing agency procedures and practices. This is a far cry from standard private sector practices to set up specific accounting systems to identify whatever information management needs to function efficiently and effectively.

Circular A-25 required annual reports from Federal agencies. Unfortunately, senior management did not use the reports as a management tool, and the requirement was changed from annual reports to five-year reports, and ultimately dropped completely in 1974. The last user charge report issued by the Federal Government was in May 1967 for 1966. At this time, there is no published Government-wide report, survey, or accounting of user charges programs. The receipt figures shown in the annual budget are obtained by OMB from the accounting records at the Department of the Treasury and the agencies when necessary.

The responsibility for user charge policy and implementation at the central Government level rests with OMB. There is one official whose duties include monitoring user charge acivities in the Federal Government. Merely compiling the collected statistics on user charges takes all of the time available (part-time), and there are no other resources available to enforce compliance with Circular A-25. Implementation and monitoring of user fee policy directives is left to the budget examiners and otherwise fragmented within OMB.

In sum, PPSS analyses confirmed the findings of a number of previous studies conducted by the General Accounting Office (GAO) and the Congressional Budget Office (CBO) that user charge policies and procedures are inconsistently applied in Executive Branch programs. Even in those situations where there should be no question as to the application of guidelines and principles, systems employed do not provide adequate program direction and guidance. We found that management information systems, accounting systems, program evaluation, and accountability are generally ineffective and, in some cases, confusing.

Your fourth question:

> "What should be done to enable government to provide products and services on a more business-like basis? Why hasn't this worked in the past? What can we do to make it work now?"

User charge programs are basically businesses selling products or services to commercial interests, consumers, or foreign purchasers on a price/benefit/cost basis. If the Government has a program that is commercial in nature, the first decision to be made is whether the Government should continue to perform that service or sell that product. The criteria for making that decision are described in OMB Circular A-76. If a decision is made that a program is appropriately conducted by the Federal Government, the activities or functions should be evaluated against established

principles. Because such principles are presently lacking, there is a need to restate user charge statutes, policies, and procedures to ensure that user fee principles are uniformly applied.

Effective management of user charge programs requires a specific focus on activity of a commercial business nature. Senior management attention has been given to a few "high return" programs such as the Highway Trust Fund and Outer Continental Shelf mineral leases. Other programs lack needed attention and accountability requirements (e.g., Foreign Military Sales, and Power Marketing Administrations). If operational management is not required to report on performance, there is less incentive to perform. An attitude of "no one really cares" exists among the personnel of many user charge programs.

The existing budgetary accounting systems act as a disincentive for the efficient collection of user charges. For many managers, the systems are incomprehensible. Further, budgetary restrictions, such as limits on the number of employees and little or no recognition for effective and efficient user fee management, provide few incentives for effective user charge programs within agencies.

To address these problems, PPSS recommended eight specific improvements to the overall management of user programs in the government. These include the following:

1. The President should establish a high-level policy team to review the existing user charge statute, and draft new legislation that will provide for the efficient management of user charge programs in the Federal Government. New legislation should include: (a) a clear definition of user charges; (b) a requirement that, when a program is deemed appropriate for user charges, market pricing principles must be applied (these should include, where appropriate, full cost recovery, market clearing price, or fair market value); and (c) standards for disposition and accountability of receipts.

2. Establish a mechanism for agency officials to determine which programs fall under Circular A-76 and which fall under Circular A-25 (the threshold decision of whether or not to defederalize).

3. Circular A-25 should allow for a separate management accounting system for each user charge program that would identify all direct and indirect costs, the special benefiting groups, and other data as necessary.

4. Private sector accounting systems should be implemented to give senior officials and Congressional committees revenue/expense or profit/loss statements.

5. The President should direct each Cabinet Secretary and independent agency head, where existing or potential receipts warrant, to establish within their organizations a user charge product or service planning function. This function should be patterned after the product planning functions found in private industry to:

   -- continually review existing Government services and products to identify those that meet the criteria established for user charge programs;

   -- structure the product or service line in relation to the public policy or interest to be served and to competitive products and services found in other Government agencies and non-Government functions; and

   -- determine prices based upon costing principles and market clearing prices.

6. Each user charge program manager should submit a full report of program costs, receipts, and other pertinent data to the agency or department head on an annual, or other reasonable, basis. In turn, each agency or department head should submit reports to the President and the President in turn should submit to Congress a general accounting (profit/loss statement) of user charge programs. In this way, the costs of financing Government programs will be known. Hidden subsidies will be exposed and minimized.

Your fifth question:

"Mr. Grace, do you personnally plan to continue to work on these issues with the Administration and the Congress?"

Yes. As you know, I have appeared before many Congressional Committees with regard to issues and recommendations raised by PPSS and will continue to do so as requested.

Over the course of the past several months numerous hearings and briefings have been held at which PPSS representatives have discussed their findings and recommendations and responded to questions from members of Congress and their staffs. I and my

associates have provided testimony to both the Senate and House Budget Committees, the Senate Finance Committee, the Senate Agriculture Committee, and other committees. These sessions have in nearly all cases been marked by a willingness to give a fair hearing to the recommendations and to consider how Congress might be involved in their implementation. I am heartened by this response. I, my staff and the 2,000 members of PPSS stand ready to provide any assistance that the President, Congress or various Government agencies request to further the understanding, acceptance and implementation of PPSS recommendations.

I would also like to mention the system developed by the Executive Office of the President to review and implement PPSS recommendations. Each agency will evaluate each issue and recommendation, indicating whether the item can be implemented as recommended or whether it, in the judgement of the department, requires modification or has been identified for further study before implementation.

White House review groups have been established to consider department/agency responses. Cabinet members and agency heads as well as PPSS representatives have been invited to participate in all review groups considering matters affecting their departments/agencies. As a result, I expect that PPSS will be intimately involved in the implementation of PPSS recommendations.

Again, it was indeed a privilege and pleasure for me to appear before your distinguished Committee. I am encouraged by your willingness to listen to our recommen ations and to consider how Congress might be involved in their implementation. Coming across clearly was a deep-seated concern with the burgeoning costs of Government and an openness to initiatives that give promise of moderating the problem. We all recognize the time is near for taking those actions necessary to restore fiscal sanity in this country. We appreciate all that you and your Committee are doing to implement PPSS recommendations and to make this a better America for all of us.

Sincerely,

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